



Jiu Zun Digital Interactive Entertainment Group Holdings Limited

九尊數字互娛集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1961



GLOBAL OFFERING

Sole Sponsor



**Lego Corporate
Finance Limited**

力高企業融資有限公司

Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers



Lego Securities Limited
力高證券有限公司



國信證券(香港)融資有限公司
GUOSEN SECURITIES (HK) CAPITAL COMPANY LIMITED

IMPORTANT

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



Jiu Zun Digital Interactive Entertainment Group Holdings Limited 九尊數字互娛集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

GLOBAL OFFERING

Number of Offer Shares	:	126,000,000 Shares (subject to the Over-allotment Option)
Number of Hong Kong Offer Shares	:	12,600,000 Shares (subject to reallocation)
Number of International Placing Shares	:	113,400,000 Shares (subject to reallocation and the Over-allotment Option)
Maximum Offer Price (subject to a Downward Offer Price Adjustment)	:	Not more than HK\$1.80 per Offer Share, plus brokerage of 1.0%, 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\$1.35 per Offer Share)
Nominal value	:	HK\$0.01 per Share
Stock code	:	1961

Sole Sponsor



Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers



Other Joint Bookrunners (in alphabetical order)



Other Joint Lead Managers (in alphabetical order)



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 whatever 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 in Hong Kong 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 of Hong Kong 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 Price is expected to be fixed by an agreement between our Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) on the Price Determination Date, which is expected to be on or around Tuesday, 10 March 2020 or such other date as may be agreed between our Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters), but in any event no later than Friday, 13 March 2020. The Offer Price will be no more than HK\$1.80 per Offer Share and is currently expected to be no less than HK\$1.50 per Offer Share (subject to a Downward Offer Price Adjustment). If, for any reason, the Offer Price is not agreed by Friday, 13 March 2020 between us and the Joint Global Coordinators (for themselves and on behalf of the Underwriters), the Global Offering will not proceed and will lapse.

The Joint Global Coordinators (for themselves and on behalf of the Underwriters) may, 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 bottom end of the indicative Offer Price range of HK\$1.50 (that is HK\$1.35), at any time on or prior to the Price Determination Date. In such a situation, the Company will, as soon as practicable following the decision to set the final Offer Price below the bottom end of the indicative Offer Price range, publish on the website of our Company at www.jiuzundigital.com and the website of the Stock Exchange at www.hkexnews.hk an announcement of the final Offer Price after making a Downward Offer Price Adjustment.

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement to subscribe for, and to procure subscriptions for, the Hong Kong Offer Shares, 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. Please see the section headed "Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Grounds for Termination" of this prospectus.

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

The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities laws in the United States, and may not be offered or sold, pledged or transferred, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and in accordance with any applicable state securities laws in the U.S.. The Offer Shares are being offered only outside of the United States in offshore transactions in reliance on Regulation S.

27 February 2020

EXPECTED TIMETABLE⁽¹⁾

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

Hong Kong Public Offer commences and **WHITE** and

YELLOW Application Forms available from 9:00 a.m. on
Thursday, 27 February 2020

Latest time to complete electronic applications under the **HK**

eIPO White Form service through the designated website at

www.hkeipo.hk or **IPO App**, which can be downloaded by

searching “**IPO App**” in App store or Google Play or

downloaded at www.hkeipo.hk/IPOApp or

www.tricorglobal.com/IPOApp⁽²⁾ 11:30 a.m. on
Monday, 9 March 2020

Application lists of the Hong Kong Public Offering open⁽³⁾ 11:45 a.m. on
Monday, 9 March 2020

Latest time to lodge **WHITE** and **YELLOW** Application Forms. 12:00 noon on
Monday, 9 March 2020

Latest time to give **electronic application instructions**

to HKSCC⁽⁴⁾ 12:00 noon on
Monday, 9 March 2020

Latest time to complete payment of **HK eIPO White Form**

applications by effecting internet banking transfer(s) or

PPS payment transfer(s) 12:00 noon on
Monday, 9 March 2020

Application lists of the Hong Kong Public Offering close⁽³⁾ 12:00 noon on
Monday, 9 March 2020

Expected Price Determination Date⁽⁵⁾ Tuesday, 10 March 2020

Where applicable, announcement of the Offer Price being set
below the bottom end of the indicative Offer Price range after
making a Downward Offer Price Adjustment. Please see the
section headed “Structure and Conditions of the Global
Offering — Price Determination of the Global Offering” of
this prospectus on the website of our Company at

www.jiuzundigital.com⁽⁶⁾ and on the website of the Stock

Exchange at www.hkexnews.hk on or before Monday, 16 March 2020

EXPECTED TIMETABLE⁽¹⁾

Announcement of the Offer Price, an indication of the level of interest in the International Placing, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares to be published on the websites of our Company at www.jiuzundigital.com⁽⁶⁾ and the Stock Exchange at www.hkexnews.hk on or before Monday, 16 March 2020

Announcement of results of allocations in the Hong Kong Public Offering (including successful applicants' identification documents or business registration numbers, where appropriate) to be available through a variety of channels including the websites of our Company's website at www.jiuzundigital.com⁽⁶⁾ and the Stock Exchange at www.hkexnews.hk (Please see the section headed "How to Apply for Hong Kong Offer Shares — 11. Publication of Results" of this prospectus for details) from Monday, 16 March 2020

Results of allocations for the Hong Kong Public Offering will be available at www.tricor.com.hk/ipo/result and www.hkeipo.hk/IPOResult or IPO App with a "search by ID" function from Monday, 16 March 2020

Despatch/collection of Share certificates or deposit of the Share certificates into CCASS on or before⁽⁷⁾⁽⁹⁾ Monday, 16 March 2020

Despatch/collection of **HK eIPO White Form** e-Auto Refund payment instructions/refund cheques (if applicable) on or before⁽⁸⁾⁽⁹⁾ Monday, 16 March 2020

Dealings in the Shares on the Stock Exchange commence on Tuesday, 17 March 2020

The application for the Hong Kong Offer Shares will commence on Thursday, 27 February 2020 through Monday, 9 March 2020, being longer than normal market practice of four days. The application monies (including the brokerages, SFC transaction levies and Stock Exchange trading fee) will be held by the receiving bank on behalf of our Company and the refund monies, if any, will be returned to the applicants without interest on Monday, 16 March 2020. Investors should be aware that the dealings in our Shares on the Stock Exchange are expected to commence on Tuesday, 17 March 2020.

Notes:

- (1) All times and dates refer to Hong Kong local time and date, except as otherwise stated.
- (2) You will not be permitted to submit your application through the designated website at www.hkeipo.hk or IPO App, after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained a payment reference number from the designated website or the IPO App 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.

EXPECTED TIMETABLE⁽¹⁾

- (3) 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 that day, the application lists will not open or close on that day. Please see the section headed “How to Apply for Hong Kong Offer Shares — 10. Effect of Bad Weather and/or Extreme Conditions on the Opening of the Application Lists” of this prospectus for details.
- (4) Applicants who apply for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC via CCASS should refer to the section headed “How to Apply for Hong Kong Offer Shares — 6. Applying by Giving **Electronic Application Instructions** to HKSCC via CCASS” of this prospectus for details.
- (5) The Price Determination Date is expected to be on or around Tuesday, 10 March 2020 and, in any event, not later than Friday, 13 March 2020. 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 Friday, 13 March 2020, the Global Offering will not proceed and will lapse.
- (6) None of the website or any of the information contained on the website forms part of this prospectus.
- (7) Share certificates are expected to be issued on Monday, 16 March 2020 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 Tuesday, 17 March 2020. Investors who trade Shares on the basis of publicly available allocation details before the receipt of Share certificates or before they become valid do so at their own risk.
- (8) e-Auto Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering and also in respect of wholly or partially successful applications in the event that the final Offer Price is less than the price payable per Offer Share on application. Part of the applicant’s Hong Kong identity card number or passport number, or, if the application is made by joint applicants, part of the Hong Kong identity card number or passport number of the first-named applicant, provided by the applicant(s) may be printed on the refund cheque, if any. Such data would also be transferred to a third party for refund purposes. Banks may require verification of an applicant’s Hong Kong identity card number or passport number before encashment of the refund cheque, if any. Inaccurate completion of an applicant’s Hong Kong identity card number or passport number may invalidate or delay in encashment of the refund cheque, if any.

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

- (9) Applicants who apply on **WHITE** Application Forms or through the **HK eIPO White Form** service for 1,000,000 or more Hong Kong Offer Shares and have provided all information required by the Application Form may collect any refund cheques and/or Share certificates (where applicable) in person from our Company’s Hong Kong Branch Share Registrar, Tricor Investor Services Limited, from 9:00 a.m. to 1:00 p.m. on Monday, 16 March 2020 or such other date as notified by our Company on the website of our Company at www.jiuzundigital.com or the Stock Exchange at www.hkexnews.hk as the date of despatch/collection of Share certificates/refund cheques/e-Auto Refund payment instructions. Applicants being individuals who are eligible for personal collection may not authorise any other person to collect on their behalf. Applicants being corporations which are eligible for personal collection must attend through their authorised representatives bearing letters of authorisation from their corporation stamped with the corporation’s chop. Both individuals and authorised representatives of corporations must produce evidence of identity acceptable to our Company’s Hong Kong Branch Share Registrar at the time of collection.

EXPECTED TIMETABLE⁽¹⁾

Applicants who apply on **YELLOW** Application Forms for 1,000,000 or more Hong Kong Offer Shares and have provided all information required by the Application Form may collect their refund cheques, if any, in person but may not elect to collect their Share certificates as such Share certificates will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit to their or the designated CCASS Participants' stock account as stated in their Application Forms. The procedures for collection of refund cheques for **YELLOW** Application Form applicants are the same as those for **WHITE** Application Form applicants.

Applicants who have applied for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC should refer to the section headed "How to Apply for Hong Kong Offer Shares – 14. Despatch/Collection of Share certificates and refund monies – Personal collection – (iii) If you apply via electronic application instructions to HKSCC" in the prospectus for details. Applicants who have applied for less than 1,000,000 Hong Kong Offer Shares and any uncollected Share certificates and/or refund cheques will be despatched by ordinary post, at the applicants' risk, to the addresses specified in the relevant applications.

Further information is set out in the section headed "How to Apply for Hong Kong Offer Shares – 13. Refund of application monies" and "How to Apply for Hong Kong Offer Shares – 14. Despatch/Collection of Share certificates and refund monies" in the prospectus.

You should read carefully the sections headed "Underwriting", "Structure and Conditions of the Global Offering" and "How to Apply for Hong Kong Offer Shares" of this prospectus for 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/or extreme conditions and the despatch of refund cheques and Share certificates.

CONTENTS

IMPORTANT NOTICE TO PROSPECTIVE INVESTORS

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

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. We have not authorized anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorized by us, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Underwriters, any of our or their affiliates or any of their respective directors, officers, employees, agents or advisers, or any other person or party involved in the Global Offering. Information contained on our website, at www.jiuzundigital.com does not form part of this prospectus.

	<i>Page</i>
EXPECTED TIMETABLE	i
CONTENTS	v
SUMMARY AND HIGHLIGHTS	1
DEFINITIONS	15
GLOSSARY OF TECHNICAL TERMS	36
FORWARD-LOOKING STATEMENTS	40
RISK FACTORS	42
INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING ..	73
WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES AND EXEMPTION FROM STRICT COMPLIANCE WITH THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE	78
DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING	86
CORPORATE INFORMATION	92

CONTENTS

	<i>Page</i>
INDUSTRY OVERVIEW	94
REGULATORY OVERVIEW	109
HISTORY, REORGANIZATION AND GROUP STRUCTURE	127
BUSINESS	159
CONTRACTUAL ARRANGEMENTS	275
CONNECTED TRANSACTIONS	301
DIRECTORS AND SENIOR MANAGEMENT	307
RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS	321
SHARE CAPITAL	326
SUBSTANTIAL SHAREHOLDERS	331
FINANCIAL INFORMATION	334
FUTURE PLANS AND USE OF PROCEEDS	393
UNDERWRITING	402
STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING	417
HOW TO APPLY FOR HONG KONG OFFER SHARES	430
APPENDIX I — ACCOUNTANTS' REPORT	I-1
APPENDIX IIA — UNAUDITED PRO FORMA FINANCIAL INFORMATION ...	IIA-1
APPENDIX IIB — PROFIT ESTIMATE	IIB-1
APPENDIX III — SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND THE CAYMAN ISLANDS COMPANY LAW	III-1
APPENDIX IV — STATUTORY AND GENERAL INFORMATION	IV-1
APPENDIX V — DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG AND AVAILABLE FOR INSPECTION	V-1

SUMMARY AND HIGHLIGHTS

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

OVERVIEW

We are a digital entertainment content provider in the PRC with a diversified content portfolio comprising (i) mobile games mainly played on android operating system, (ii) e-magazines, and (iii) other digital media content such as comics and music. Apart from casual mobile games which we focused primarily during the Track Record Period, we also commenced development and operation of boutique mobile games since FY2017 and launched our first multi-player mobile game, which is a licensed game, in January 2019 ^(Note). Since FY2018, we have also cooperated with corporate customers who make use of the in-game airtime provided by us for placing their media content for advertising purpose.

During the Track Record Period, our business was operated under two business lines:

- (1) **Mobile game:** (i) development and operation of mobile games with primary focus on casual mobile games during the Track Record Period and we also launched our first multi-player mobile game, which is a licensed game, in January 2019 ^(Note). We derive our revenue primarily from the sale of virtual items in our mobile games; (ii) information services where our Group cooperated with corporate customers to integrate media content in some of our mobile games we operate. We derived revenue from the provision of in-game airtime when players click on the in-game links in the designated spaces and view the media content posted by such corporate customer in return for virtual items; and
- (2) **Digital media content distribution:** distribution of digital media content such as e-magazines, comics and music.

The following table sets forth a breakdown of our revenue by business line during the Track Record Period:

	FY2016		FY2017		FY2018		9M2018		9M2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000 (unaudited)	%	RMB'000	%
Mobile game										
- Mobile game development and operation . . .	116,548	83.4	151,068	88.5	90,611	63.4	78,808	65.4	146,754	85.9
- Information services	-	-	-	-	918	0.6	-	-	2,088	1.2
Digital media content distribution	23,207	16.6	19,586	11.5	51,450	36.0	41,619	34.6	21,950	12.9
	<u>139,755</u>	<u>100.0</u>	<u>170,654</u>	<u>100.0</u>	<u>142,979</u>	<u>100.0</u>	<u>120,427</u>	<u>100.0</u>	<u>170,792</u>	<u>100.0</u>

OUR BUSINESS MODEL

Our business is principally operated under two business lines:

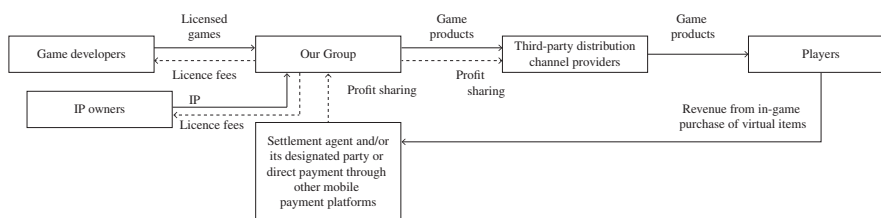
(i) Mobile game

Development and operation

The following provides an illustration of our mobile game development and operation business:

Note: An immaterial amount of revenue was derived in December 2018 during the beta testing stage of our first multi-player mobile game.

SUMMARY AND HIGHLIGHTS



As a developer and operator of mobile games, while we have primarily focused on single-player casual mobile games during the Track Record Period, we launched our first multi-player mobile game in January 2019 (an immaterial amount of revenue was derived in December 2018 during the beta testing stage of the game). Mobile games are played on smartphones or tablets, with/without the need of connecting to the internet for gameplay, regular updates, download, level clearance as well as the payment made when players purchase virtual items during gameplay, and multi-player mobile games require constant internet connection during gameplay in order for games to be playing against each other and/or the computer. We are able to offer a diversified game portfolio, delivering a relaxing gameplay experience and thus capturing a broad spectrum of players. Our mobile games are either self-developed or are licensed from third-party developers. We engage various distribution channel providers who are specialized in the distribution of mobile games, thereby granting us access to various distribution platforms and advertising alliance so as to attain optimal product exposure and outreach. Also, we seek to obtain popular entertainment properties from IP owners to develop our mobile games, so as to attract a larger player base and extend our product lifecycle. Although our mobile games are free-to-download and free-to-play by the public (whether they are customers of China Mobile Internet and/or its affiliates or not), substantially all of our Group's customers during FY2016, FY2017 and FY2018 were customers of China Mobile Internet customers and/or its affiliates. We derive our revenue primarily from the sale of an assortment of virtual items, which are tailored for each and every game with an aim to (a) incentivize purchase; and (b) enhance players' gameplay experience.

Information services

Leveraged on our experience in game development and operation, since FY2018, our Group cooperated with corporate customers to integrate media content in some of our mobile games we operate. We derived revenue from the provision of in-game airtime when players click on the in-game links in the designated spaces and view the media content posted by such corporate customer.

(ii) Digital media content distribution

As a digital media content distributor, we procure licensing rights of media content to distribute in digital format. Examples of our digital media content include e-magazines, comics, SMS and music. Leveraging on the evolving habits of readers from reading printed media to accessing digital media content via smartphones, we strategically partner with distribution channel providers which have access to large digital distribution platforms such as those provided by the largest telecommunication service provider in the PRC. We make procurement decisions of licensing rights of media content with reference to the prevailing market trend and readers' preference. We derive our revenue through subscription by readers.

Please see the section headed "Business — Our Business Model" for details.

OUR RELATIONSHIP WITH CHINA MOBILE INTERNET

To leverage on the wide network and large customer base of China Mobile Internet, we have cooperated with China Mobile Internet, its holding company being the largest telecommunication operator in the PRC (which had about 935 million users in the PRC in the second quarter of 2019), as our major settlement agent and distribution channel provider in providing settlement services and access to their distribution platform in relation to our revenue generated from our subscription fees of our e-magazines since 2011. From 2014, we expanded our cooperation with China Mobile Internet and/or its affiliates and it acted as our major settlement agent and distribution channel provider for our mobile games during FY2016, FY2017, FY2018 and 9M2019. Our Group would receive the net amount after deduction of 30% of gross billings received from players by China Mobile Internet and/or its affiliates, where they also acted as a distribution channel provider for free for our mobile games and digital media content without additional charge. For FY2016, FY2017, FY2018 and 9M2019, 99.4%, 99.8%, 98.6%, and 71.4% of our total revenue were collected

SUMMARY AND HIGHLIGHTS

through China Mobile Internet and/or its affiliates. In line with the changing industry trend, China Mobile Internet and/or its affiliates has commenced a payment function via the Leading Mobile Payment Platform A which our single-player mobile games players can choose to use such payment method since April 2019, where China Mobile Internet and/or its affiliates would retain 5% of the gross billings paid by our end users. Under this arrangement, China Mobile Internet and/or its affiliates remain responsible to provide in-game data in relation to player's gameplay and purchase activities for our single-player mobile games. We consider that it is commercially beneficial to maintain close and long-term business relationship with China Mobile Internet and/or its affiliates due to its substantial share in the telecommunication market in the PRC. Please refer to the section headed "Business — Our Relationship with China Mobile Internet and Its Affiliates" for details.

OUR GAMES

The following table sets forth certain information relating to our games which ranked top five revenue generating games during the Track Record Period:

Game	Genre	Roll out date (Note 1)	Types and price range of the virtual items and premium features	Self-developed/ licensed games	The financial year/period in which the games ranked top 5 (Note 2)	ARPPU/Average MPU
天天格鬥—精武之魂 (The Soul for Fighting*)	Casual – Adventure	October 2014	Diamonds and giftsets at a price ranging from RMB0.01 to RMB20.0	Self-developed game	FY2016	FY2016: RMB12.96/80,269
萌將春秋OL (The Warlords in the Spring and Autumn Times*)	Casual – Adventure	October 2014	Coins and extra energy at a price ranging from RMB2.0 to RMB3.0	Self-developed game	FY2016	FY2016: RMB4.36/108,466
鬥地主 (Battling the Landlords*)	Casual – Strategy and mind challenge	May 2015	Gold coins, diamonds and bombs at a price ranging from RMB2.0 to RMB30.0	Licensed game	FY2016	FY2016: RMB21.67/29,141
馬上鬥地主 (Battling the Landlords at Once*)	Casual – Strategy and mind challenge	July 2015	Gold coins at a price ranging from RMB2.0 to RMB30.0	Licensed game	FY2017	FY2017: RMB18.77/152,936
中國象棋 (Chinese Chess*)	Casual – Strategy and mind challenge	December 2015	Tips and reverse move at a price ranging from RMB1.0 to RMB30.0	Licensed game	FY2016, FY2017 and FY2018	FY2016: RMB8.52/179,550 FY2017: RMB14.51/229,546 FY2018: RMB14.47/109,926
機智的小鳥 (Witty Bird*)	Casual-Endless Run	June 2015	Diamonds, energy and golden coins at a price ranging from RMB2.0 to RMB10.0	Self-developed game	FY2016, FY2017 and FY2018	FY2016: RMB8.90/332,593 FY2017: RMB10.48/478,771 FY2018: RMB10.54/149,656
魔法酷跑 (Magical Run*)	Casual-Endless run	July 2017	Diamonds at a price ranging from RMB0.1 to RMB15.0	Licensed game	FY2017	FY2017: RMB21.03/58,060
達人麻將 (Mahjong Expert*)	Casual-Strategy and mind challenge	October 2014	Giftset at a price ranging from RMB2.0 to RMB30.0	Licensed game	FY2018	FY2018: RMB18.39/105,318
新東方多納寓言故事 (New Oriental Donut Fable Stories*)	Casual-Education	July 2017	Toolkits at a price ranging from RMB2.0 to RMB20.0	Licensed game	FY2017 and FY2018	FY2017: RMB16.14/247,104 FY2018: RMB16.17/158,978
95火隼機 (Hot Flight '95*)	Casual-Adventure	November 2017	Gold coins and giftsets at a price ranging from RMB2.0 to RMB20.0	Self-developed game	FY2018	FY2018: RMB14.56/81,740
霸業永恒 (Eternal Champion*) (Note 3)	Casual-Adventure	January 2019	Gold ingots at a price ranging from RMB8.0 to RMB3,000.0	Licensed game	9M2019	9M2019: RMB368.35/12,793
3D滑雪狂飆 (3D Ultra Speed Skiing*)	Casual-Endless Run	January 2019	Golden coins, giftsets and extra energy at a price ranging from RMB2.0 to RMB30.0	Licensed game	9M2019	9M2019: RMB18.97/367,165
神奇萌泡 (Magical Bubbles*)	Casual- Elimination	April 2019	Gold coins, energy and toolkits at a price ranging from RMB1.0 to RMB30.0	Self-developed game	9M2019	9M2019: RMB18.53/116,951
豬豬俠之光明守衛者 (GG Bond-Guardian of the Light*)	Boutique-Adventure	January 2019	Diamonds, giftsets and extra energy at a price ranging from RMB6.0 to RMB28.0	Licensed game	9M2019	9M2019: RMB18.62/103,130
天天酷飛 (Fly Off*)	Casual-Endless run	April 2019	Gold coins, diamonds and energy at a price ranging from RMB2.0 to RMB30.0	Self-developed game	9M2019	9M2019: RMB18.75/55,346

Notes:

- (1) We consider a game to be "rolled out" or "launched" a mobile game is considered to have started operation once revenue is generated, as such it may start since the beta-testing phase when we have concluded beta-testing and the game becomes available for public end-users to access and download.
- (2) For details of the revenue contribution of the games during the year which it ranked top five, please see the section headed "Financial Information".

SUMMARY AND HIGHLIGHTS

- (3) 霸業永恒 (Eternal Champion*), a multi-player mobile game, had an average MAU and DAU of 124,575 and 10,580 during 9M2019, respectively.

During the Track Record Period, we have launched 141, 62, 20 and 38 games in FY2016, FY2017, FY2018 and 9M2019, respectively, while we have withdrawn 331, 118, 93 and 23 games from the distribution platforms. The major reasons for the withdrawal of the games during the Track Record Period were (i) shift of focus to develop boutique mobile games, which is in line with the industry trend, thereby necessitating us to shift the resources from less popular and profitable mobile games; and (ii) the withdrawal of the Policy-related Withdrawn Games as a result of the additional registration requirement imposed by SAPPRFT which is required to be fully complied with by the end of 2016.

Please see the section headed “Business – Game Monetization – Reasons for the decrease in the number of revenue generating mobile games and newly launched mobile games as well as withdrawal of games during the Track Record Period.”

OUR SUPPLIERS AND CUSTOMERS

Our major suppliers for our mobile game development and operation business include third-party game developers, IP licensors and distribution channel providers, while our major suppliers for our digital media content distribution business include third-party content providers and distribution channel providers. We have maintained a stable relationship with our top five largest suppliers, which were distribution channel providers mostly, with an average of approximately three years of business relationship. Cost of sales attributable to our five largest suppliers for FY2016, FY2017, FY2018 and 9M2019 were RMB45.0 million, RMB53.2 million, RMB42.2 million and RMB84.6 million, which accounted for approximately 60.3%, 56.6%, 52.3% and 78.4%, respectively, of our total costs of sales for those periods.

We consider mobile game players who purchase virtual items in our mobile games and our readers who subscribe to our digital media content as our customers.

Please see the section headed “Business — Our Suppliers” and “Business — Our Customers” for details.

OUR COMPETITIVE STRENGTHS

We believe that our continuing success, future growth and market positioning are principally attributable to (i) a synergetic business model empowered by complementary mobile game development and operation and digital media content distribution; (ii) our stable business relationship with large number of distribution channel providers in the PRC helps us target and attract more potential paying players and digital media content subscribers; (iii) diversified game portfolio, superior gameplay experience and strong optimization and monetization capability; (iv) our selection of digital media content and large reader base have enabled us to establish a foothold in the digital media industry; and (v) we possess an established and dedicated management and development team with operational expertise and industry knowledge.

Please see the section headed “Business — Our Competitive Strengths” for details.

BUSINESS STRATEGIES

We intend to pursue the following strategies to further grow our business: (i) expand our market share in single-player mobile games with a strategic focus on boutique games; (ii) expedite our expansion in the multi-player mobile games market; (iii) leverage on popular entertainment properties to develop boutique mobile games; (iv) strengthen our monetization measures and enhance collaboration with our suppliers; (v) diversify the use of payment and settlement services provider so as to optimize the payment functions of our games in order to stimulate further spending from the players; (vi) enrich our digital media content offering; (vii) pursuing strategic acquisitions and partnerships to promptly gain market share; and (viii) selectively expand into overseas markets and build overseas player base.

Please see the section headed “Business — Business Strategies” for details.

HIGHLIGHTS OF RISK FACTORS

Our business and the Global Offering involve certain risks, which are set out in the section headed “Risk Factors”. 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 generated a substantial portion of our revenue from the development and operation of mobile games. We must continue to launch new games that attract and retain a significant number of players in order to maintain our revenue growth and our competitive position.

SUMMARY AND HIGHLIGHTS

- We rely on distribution channel providers. Our operations may be adversely affected if we cannot seek replacement in a timely manner.
- Our business and financial performance may be adversely affected by the PRC government policies governing the mobile games industry.
- Our game portfolio included games that are self-developed or licensed games. Our operations may be adversely affected if we cannot seek alternatives in a timely manner.
- If we are unable to extend the relatively expected short life cycle of our mobile games and maintain their popularity during that period, our business and financial conditions could be materially and adversely impacted.

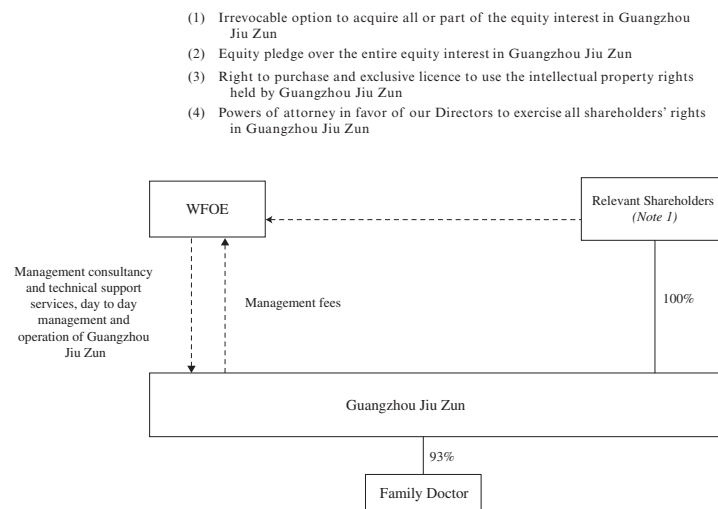
COMPETITIVE LANDSCAPE

In respect of the mobile games business, competition in the PRC mobile games market has become fiercer in recent years since the opportunities in the mobile games market in China had encouraged more market entrants to develop mobile games domestically. Since the overall mobile games market in the PRC is only at an early development stage, the market may possibly change rapidly in the near future such as gameplay technology, inventive business model, change in consumers' preferences and expectation for games and new governmental policy. In respect of our digital media business, with the prevalence of mobile devices and favorable reading atmosphere in the PRC, it is expected that there will be a shift of consumer's behavior fuelling more publishers to develop and release their own digital version of magazines driving the competition in the e-magazines market to become intense. Our Directors are of the view that our Group's capabilities in data-driven game development, stable business relationship with a large number of distribution channel providers in the PRC, diversified game portfolio, experience in selecting attractive digital media content to distribute and dedicated management and development team, we can differentiate with our competitors in the future. Please see the section headed "Industry Overview" for further details.

CONTRACTUAL ARRANGEMENTS

We conduct our business through our Consolidated Affiliated Entities, comprising of Guangzhou Jiu Zun and its subsidiaries. As the operation of our businesses in the PRC is subject to foreign investment restrictions under PRC law, our Company is unable to own or hold any direct or indirect equity interest in our Consolidated Affiliated Entities. As a result of the foregoing, on 23 February 2019, we entered into a series of Contractual Arrangements with Guangzhou Jiu Zun through WFOE to conduct our businesses in the PRC in order to comply with the applicable PRC laws and regulations and to assert management control over the operations of, and enjoy all economic benefits of Guangzhou Jiu Zun.

The following simplified diagram illustrates the flow of economic benefits from the Consolidated Affiliated Entities to our Group stipulated under the Contractual Arrangements:



Notes:

- (1) The Relevant Shareholders are Mr. Liang, Yujiang Chenghe Investment, Yujiang Yingming Investment, Mr. Xu and Ms. Zhang, holding 32.26%, 26.88%, 26.88%, 7.53% and 6.45% shares in Guangzhou Jiu Zun, respectively.
- (2) "—" denotes direct legal and beneficial ownership in the equity interest and " - - - " denotes contractual relationship through the Contractual Arrangements

SUMMARY AND HIGHLIGHTS

Please see the section headed “Contractual Arrangements” for details.

OUR CONTROLLING SHAREHOLDERS

Immediately following completion of the Global Offering and Capitalization Issue (without taking into account any Share which may be issued upon exercise of the Over-allotment Option), Mr. Liang, Mr. Lu, Ms. He (as Mr. Lu’s spouse) and Ms. Su, through their respective intermediate holding companies, will together control more than 30% of the issued share capital of our Company, and control more than 30% of the equity interest in Guangzhou Jiu Zun, which holds 93% of the equity interest in Family Doctor. Mr. Liang, Mr. Lu, Ms. He (as Mr. Lu’s spouse) and Ms. Su and their respective intermediate holding companies (including JLCY SAGA, LJHJH SAGA and WW SAGA) are our group of Controlling Shareholders. Please see the section headed “History, Reorganization and Group Structure — Our Controlling Shareholders” for details.

PRE-IPO INVESTOR

AE Majoris Tech and AEM PIPO, being our pre-IPO investors, subscribed for the zero coupon convertible bonds issued by our Company in the aggregate principal amount of HK\$19,000,000. Upon full conversion of the Pre-IPO Convertible Bonds immediately before the Capitalization Issue and the Global Offering, AE Majoris Tech and AEM PIPO will be issued 4,280 Shares and 2,710 Shares, representing 4.00% and 2.53%, respectively, of the entire issued share capital of our Company immediately before the completion of the Global Offering and Capitalization Issue (without taking into account any Share which may be issued upon exercise of the Over-allotment Option). Upon the completion of the Global Offering and Capitalization Issue (without taking into account any Share which may be issued upon exercise of the Over-allotment Option), AE Majoris Tech and AEM PIPO will hold 3.07% and 1.95%, respectively, of the entire issued share capital of our Company. The consideration for the Pre-IPO Convertible Bonds was fully settled and received by us on 29 May 2018. Please see the section headed “History, Reorganization and Group Structure — Pre-IPO Investment” for details.

SHARE OPTION SCHEME

We conditionally adopted the Share Option Scheme on 21 February 2020. The maximum number of Shares in respect of which options may be granted under the Share Option Scheme shall be 54,600,000. Please see the section headed “Statutory and General Information” in Appendix IV to this prospectus for details.

SUMMARY HISTORICAL FINANCIAL INFORMATION AND SELECTED OPERATING DATA

The following table sets forth the summary of our combined statements of profit or loss from the financial statements during the Track Record Period and should be read in conjunction with the Accountants’ Report in Appendix I to this prospectus.

	Year ended 31 December			Nine months ended 30 September	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Revenue	139,755	170,654	142,979	120,427	170,792
Cost of sales	(74,656)	(93,898)	(80,660)	(69,404)	108,004
Gross profit	65,099	76,756	62,319	51,023	62,788
Profit and total comprehensive income for the year/period attributable to:					
Owners of our Company . .	36,451	46,633	47,689	42,009	27,063
Non-controlling interests . .	4,128	4,005	3,978	3,427	3,261
	40,579	50,638	51,667 ^(Note 1)	45,436 ^(Note 1)	30,324
<i>Non-HKFRSs Measures</i>					
Profit and total comprehensive income for the year	40,579	50,638	51,667	45,436	30,324

SUMMARY AND HIGHLIGHTS

	Year ended 31 December			Nine months ended 30 September	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Add:					
Listing expenses	300	4,955	4,550	3,276	8,848
Adjusted profit and total comprehensive income for the year/period (Note 2) .	40,879	55,593	56,217	48,712	39,172

Notes:

- (1) This include the reversal of impairment losses on trade receivables of RMB17.3 million and RMB16.3 million in FY2018 and 9M2018, respectively. Please refer to the section headed “Financial Information — Review of Historical Results of Operation — Reversal of Impairment/(impairment) of Trade Receivables” for details.
- (2) Adjusted profit and total comprehensive income for the year is derived by excluding the Listing expenses. The term of adjusted profit and total comprehensive income is not defined under the HKFRSs and the values thereof were presented because our Directors believe that they are useful supplements to the combined statements of profit or loss and other comprehensive income. The values reflect another perspective to the profitability of our Group’s operations without taking into consideration the non-recurring Listing expenses. However, the adjusted profit and total comprehensive income for the year should not be considered in isolation or construed as an alternative to profit and total comprehensive income for the year prepared in accordance with HKFRSs, or as an alternative to cash flows as a measurement of liquidity and shall be used for illustrative purpose only. Potential investors should take note that the adjusted profit for the year presented in this prospectus may not be comparable to similarly titled measures reported by other companies due to differences in the components of the calculation.

REVENUE

Our revenue represented income from (i) sale of virtual items in our mobile games under our mobile game development and operation business; (ii) revenue from the provision of in-game airtime when players click on the in-game links in the designated spaces and view the media content posted by the corporate customer in the advertising cooperation arrangement under our mobile game information services business; and (iii) subscription by readers of our digital media content under our digital media content distribution business. Set forth below is a breakdown of our revenue by business line for the periods indicated:

	FY2016		FY2017		FY2018		9M2018		9M2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000 (unaudited)	%	RMB'000	%
Mobile game										
– Mobile game development and operation . .	116,548	83.4	151,068	88.5	90,611	63.4	78,808	65.4	146,754	85.9
– Information services	–	–	–	–	918	0.6	–	–	2,088	1.2
Digital media content distribution	23,207	16.6	19,586	11.5	51,450	36.0	41,619	34.6	21,950	12.9
	139,755	100.0	170,654	100.0	142,979	100.0	120,427	100.0	170,792	100.0

Our revenue from mobile game development and operation business accounted for over 80.0% of our total revenue in FY2016, FY2017, and decreased to 63.4% of our total revenue in FY2018 following our response to the series of institutional restructuring of the PRC government. Due to the series of institutional restructuring of the PRC government, SAPPRFT is reformed and became a direct agency of the State Council, and the approval of new game registration in the PRC has been suspended from March to December 2018. We have proactively responded to the change by (i) switching our focus to placing more emphasis on distribution of licensed games; and (ii) intensifying our efforts in the distribution of digital media content. As such, our revenue derived from digital media content distribution business rose from RMB19.6 million in FY2017 to RMB51.5 million in FY2018, representing an increase of 162.8%. As a result, our revenue for FY2018 decreased from RMB170.7 million in FY2017 to RMB143.0 million in FY2018. Our revenue increased from RMB120.4 million in 9M2018 to RMB170.8 million in 9M2019 primarily due to the increase in revenue from our mobile game business.

The following table sets forth the key operating data which measure the performance of our mobile games during the Track Record Period:

SUMMARY AND HIGHLIGHTS

Our mobile games	FY2016	FY2017	FY2018	9M2019
Number of paying players	20.7 million	22.8 million	14.9 million	9.4 million
Average MPUs	1.7 million	1.9 million	1.2 million	1.0 million
Number of mobile games	496	222	91	79
Average MPUs per game (Note) . . .	3,500	8,600	13,600	13,171
Average ARPPU	RMB11.02	RMB13.20	RMB15.41	RMB23.16

Note: Average MPUs per game is calculated by dividing the average MPUs in a period by the number of revenue-generating games in the same period

These indicators are largely affected by the number of mobile games we operate in the relevant period and their popularity. All of our Group's mobile games are free-to-download and free-to-play. Players only pay when purchasing in-game virtual items. This enable us to quickly attract players to experience our newly launched games. The overall decrease in newly launched games from FY2017 to 9M2019 led to the overall decrease in the number of paying players during the same period. From FY2017 to 9M2019, the number of newly launched games decreased due to (i) the temporary suspension of the approval by SAPPRFT at the national level of game registration and issuance of publication numbers for mobile games from March 2018 to December 2018; and (ii) the shift of focus of our Group to boutique mobile games which require more time to develop. Although the number of paying players decreased from FY2017 to 9M2019, the average ARPPU increased from FY2017 to 9M2019. Due to the implementation of different monetization measures, the average ARPPU increased at a CAGR of 18.3% between FY2016 and FY2018. The ARPPU increased by approximately 50.3% to RMB23.16 in 9M2019 from FY2018 mainly due to the launch of the first multi-player mobile game in January 2019 which offered virtual items at a relatively high unit purchase price.

GROSS PROFIT AND GROSS PROFIT MARGIN

The table below sets forth our gross profit and gross profit margin:

	FY2016		FY2017		FY2018		9M2018		9M2019	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross Profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(unaudited)									
Mobile game										
– Mobile game development and operation . . .	50,475	43.3	64,335	42.6	34,813	38.4	29,968	38.0	47,150	32.1
– Information services	–	–	–	–	918	100.0	–	–	1,547	74.1
Digital media content distribution	15,188	65.4	13,008	66.4	27,286	53.0	21,611	51.9	14,300	65.1
	65,663	47.0	77,343	45.3	63,017	44.1	51,579	42.8	62,997	36.9
Add: sales tax and surcharges	(564)		(587)		(698)		(556)		(209)	
	65,099	46.6	76,756	45.0	62,319	43.6	51,023	42.4	62,788	36.8

The gross profit margin decreased from 45.0% in FY2017 to 43.6% in FY2018 mainly due to the increase in service fee paid to distribution channel providers for both our mobile game development and operation business and digital media content distribution business.

The primary reason for the drop in the gross profit margin was primarily due to the series of institutional restructuring of the PRC government, leading to the Temporary Suspension. As a result, the games we offered to our distribution channel providers were our existing games during FY2018, which bore a lower agreed profit sharing ratio and thus less attractive to the distribution channel providers as compared to the newly launched games. In order to secure the distribution of our games which were existing games, we had to pay higher service fee to our distribution channel providers during FY2018. Consequently, our gross profit margin for our mobile game development and operation business decreased in FY2018. For our digital media content distribution business, our gross profit margin was relatively lower in FY2018 mainly as a result of more readers subscribing for our media content through our distribution channel providers as we engaged more distribution channel providers during FY2018, instead of subscribing through our publishing platform.

Our gross profit margin decreased from 42.4 % in 9M2018 to 36.8% in 9M2019 mainly due to the decrease in gross profit margin from our mobile games development and operation from 38.0% in 9M2018 to 32.1% in 9M2019. Such decrease was primarily due to the increase in our service fee

SUMMARY AND HIGHLIGHTS

charged by the distribution channel providers for multi-player games. Our gross profit from the development and operation of our multi-player games was relatively lower at 18.5% compared to other mobile games. It was mainly attributable to the higher costs relating to distribution channels and maintenance of multi-player mobile games incurred by us as our Group has just started penetrating into the business line of multi-player mobile games.

Please see the section headed “Financial Information” for details.

HIGHLIGHTS OF COMBINED STATEMENTS OF FINANCIAL POSITIONS

	As at 31 December			As at 30 September
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets	305	1,007	684	619
Current assets	177,938	184,679	161,982	192,981
Current liabilities	75,986	102,791	78,307	77,723
Net current assets	101,952	81,888	83,675	115,258
Non-current liabilities	—	—	—	1,194
Total equity	102,257	82,895	84,359	114,683

Our net assets decreased from approximately RMB102.3 million as at 31 December 2016 to approximately RMB82.9 million as at 31 December 2017 was mainly due to the dividend paid by a subsidiary to our then shareholders and a non-controlling shareholder of RMB70.0 million which net off by the profit and total comprehensive income generated for the year of approximately RMB50.6 million. Our net assets increased slightly to approximately RMB84.4 million as at 31 December 2018 was mainly due to the profit and total comprehensive income generated for the year of approximately RMB51.7 million which net off by the dividend paid by a subsidiary to our then shareholders and a non-controlling shareholder of RMB50.0 million. Our net assets further increased to approximately RMB114.7 million as at 30 September 2019 was mainly the result of the profit and total comprehensive income generated for the period of approximately RMB30.3 million.

HIGHLIGHTS OF COMBINED STATEMENTS OF CASH FLOWS

	FY2016	FY2017	FY2018	9M2018	9M2019
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Cash generated from operations before working capital change	52,408	61,502	41,676	35,352	43,452
Change in working capital	455	28,351	(1,244)	(2,541)	(137,173)
Income tax paid	(14,551)	(15,062)	(7,734)	(7,011)	(3,059)
Net cash flows from/(used in) operating activities	38,312	74,791	32,698	25,800	(96,780)
Net cash flows from/(used in) investing activities	(34,663)	36,271	646	260	52,195 ^(Note)
Net cash flows used in financing activities	(3,208)	(20,000)	(50,995)	(30,995)	(17,000)
Net increase/(decrease) in cash and cash equivalents	441	91,062	(17,651)	(4,935)	(61,585)
Cash and cash equivalents at beginning of year/period	14,204	14,645	105,707	105,707	89,270
Effect of foreign exchange rate changes, net	—	—	1,214	1,214	(75)
Cash and cash equivalents at end of year/period	14,645	105,707	89,270	101,986	27,610

Note: In consideration of the repayment to the 28 subsidiaries of RMB51.6 million included in operating activities, the net inflow to our Group of the disposal of the 28 Subsidiaries is RMB0.2 million.

For 9M2019, our Group had net cash used in operating activities of RMB96.8 million, mainly attributable to (i) the repayment of RMB51.6 million to the 28 Subsidiaries; (ii) the increase in deposits paid to distribution channel providers and to licensors for obtaining licensing rights; and

SUMMARY AND HIGHLIGHTS

(iii) the increase in trade receivables due to delay in settlement from China Mobile Internet and/or its affiliates. Please see section headed “Financial Information – Liquidity and Capital Resources” for details. To improve our operating cash flow position in view of negative cash outflow from operating activities for 9M2019, we will continue to adopt and/or explore the measures including but not limited to (i) improving measures of collection of trade receivables in a timely manner and continue to expand to different payment platforms with better repayment schedules; (ii) carefully managing our development schedules to reduce the prepayments to licensors through corporate guarantees after the Listing; (iii) enhancing our management in distribution channels and hence reducing the amount of deposits and prepayments required by distribution channel providers through corporate guarantees after the Listing; and/or (iv) obtaining trade facilities by pledging the trade receivables with banks when necessary.

KEY FINANCIAL RATIOS

The following table sets forth our key financial ratios as at each of the periods/dates indicated:

	FY2016	FY2017	FY2018	9M2019
Gross profit margin (%)	46.6	45.0	43.6	36.8
Net profit margin (%)	29.0	29.7	36.1	18.1
Return on equity (%)	39.7	61.1	61.2	N/A
Return on total assets (%)	22.8	27.3	31.8	N/A

	As at 31 December			As at 30 September
	2016	2017	2018	2019
Current ratio (<i>times</i>)	2.3	1.8	2.1	2.5
Gearing ratio (%)	1.7	N/A	N/A	N/A
Net debt to equity ratio(%)	N/A	N/A	N/A	N/A

Please see the section headed “Financial Information — Key Financial Ratios” for details.

LISTING EXPENSES

Our Directors are of the view that our financial results for FY2019 are expected to be adversely affected by the Listing expenses in relation to the Global Offering, the nature of which is non-recurring. The total Listing fees in relation to the Global Offering, primarily consisting of fees paid or payable to professional parties and underwriting fees and commission, are estimated to be approximately RMB65.1 million (based on the mid-point of the indicative Offer Price range of HK\$1.65 (equivalent to approximately RMB1.42) per Offer Share and 126,000,000 Offer Shares), representing approximately 36.3% of the gross proceeds from the Global Offering. Among the estimated total Listing fees, (i) approximately RMB37.3 million is expected to be accounted for as a deduction from equity upon Listing; and (ii) approximately RMB27.8 million is expected to be recognized as expenses in our combined statements of comprehensive income, of which approximately RMB18.7 million had been recognized during the Track Record Period and the remaining of approximately RMB8.8 million is expected to be recognized after the Track Record Period and during the year ending 31 December 2020.

PROFIT ESTIMATE FOR THE YEAR ENDED 31 DECEMBER 2019

We have prepared the following profit estimate for the year ended 31 December 2019.

Estimated consolidated profit attributable to owners of our Company (<i>Note 1 and 2</i>)	not less than RMB37.2 million
----------------------------------------------------------------------------------------------------------	-------------------------------------

Notes:

- (1) The bases on which the above profit estimate for the year ended 31 December 2019 has been prepared are summarised in Appendix IIB to this prospectus. Our Directors have prepared the estimated consolidated profit attributable to owners of our Company for the year ended 31 December 2019 based on (i) the audited consolidated results of our Group for the nine months ended 30 September 2019; and (ii) the unaudited consolidated results based on management accounts of our Group for the three months ended 31 December 2019.

SUMMARY AND HIGHLIGHTS

- (2) The estimated consolidated results of our Group for the year ended 31 December 2019 has taken into account the expected Listing expenses to be incurred during the year ended 31 December 2019 of approximately RMB8.8 million. Had the effect of such expected Listing expenses not been taken into account, the estimated consolidated results of our Group and attributable to the owners of the Company for the year ended 31 December 2019 would have been approximately RMB50.0 million and RMB46.0 million, respectively.

Our Directors would like to emphasize that the amount of the Listing expenses is a current estimate for reference only and the final amount to be recognized in the combined financial statements of our Company after the Track Record Period and for the year ended 31 December 2019 is subject to adjustment based on audit and the then changes in variables and assumptions.

Prospective investors should note that the financial performance of our Group for the year ended 31 December 2019 is expected to be adversely affected by the estimated non-recurring Listing expenses mentioned above, and may or may not be comparable to the financial performance of our Group in the past.

RECENT DEVELOPMENT

Based on the unaudited combined management account of our Group for the eleven months ended 30 November 2019, we recorded an increase of 45.9% in our revenue as compared to the corresponding period in 2018, which was mainly attributable to the increase in revenue from our mobile game development and operation business as a result of the launch of our first multi-player mobile game in January 2019 (an immaterial amount of revenue was derived in December 2018 during the beta testing stage of the game) and subsequently, our second and third multi-player mobile games in June and July of 2019, respectively. After the resumption of approval of newly developed games by SAPPRFT in December 2018, we successfully obtained the approval of game registration of our two new games. Subsequent to the Track Record Period and as at the Latest Practicable Date, we have launched 4 mobile games and we have 4 games in the pipeline, all of which are expected to be rolled out in the first and second quarter of 2020. Please see the section headed “Business — Game Monetization — Game pipeline” of this prospectus for details.

We are also in the process of diversifying our payment and settlement services to other means such as mobile payment platform, for details of our diversification strategy, please refer to “Business — Business Strategies – Diversify the use of payment and settlement services provider so as to optimize the payment functions of our games in order to stimulate further spending of the players”. Following the launch of our first multi-player mobile game in January 2019, the Leading Mobile Payment Platforms became available to players of all of our multi-player mobile games. Further, China Mobile Internet and/or its affiliates, which acted as our major settlement agent and distribution channel provider for our mobile games and digital media during FY2016, FY2017, FY2018 and 9M2019, China Mobile Internet and its affiliates also commenced a payment function via the Leading Mobile Payment Platform A where players can opt for such payment method since April 2019. To diversify the payment channels, we have reduced our reliance on China Mobile Internet and/or its affiliates as a payment channel by using the Leading Mobile Payment Platforms for our multi-player existing mobile games. For the one multi-player game in the pipeline, we will continue to use the Leading Mobile Payment Platforms as settlement agents. Our Directors believe an increasing number of players will be attracted to our games through the convenience in payment settlement by the newly introduced China Mobile Internet payment function via a Leading Mobile Payment Platform A, and our Group will thus be able to further improve our financial performance going forward.

On 25 October 2019, the Notice on Preventing Minors from Indulging in Online Games (《關於防止未成年人沉迷網絡遊戲的通知》) was issued by the SAPPRFT (the “Notice”). Pursuant to the Notice, a number of restrictions will be imposed on mobile games, including (i) mobile game operators are required to request the existing users to complete the real-name registration within two months from 1 November 2019; (ii) the time and duration where minors can spend on mobile games are also restricted, in particular, mobile game operators are banned from providing game services to minors in any form between 10 p.m. and 8 a.m.; (iii) restrictions on the purchase amount in mobile games, with different restrictions on different age groups. Our Directors are of the view that the Notice would not have material impact on our Group’s business as (a) the Notice only imposes restrictions on mobile / multi-player games and would not have any impact on our digital media content distribution business; (b) only person above 16 years old or above can register for an account with China Mobile Internet and/or its affiliates, hence only a limited number of players, namely those aged 16 to 17 years, are subject to the restrictions of the Notice. As at the Latest Practicable Date, our Group has implemented the real-name registration for our mobile games. For further details of the Notice, please see the sections “Regulatory Overview – Regulations related to mobile games and internet cultural products (including digital media content)” and “Regulatory Overview – Risks relating to our industry — The laws and regulations

SUMMARY AND HIGHLIGHTS

governing the mobile game industries and related businesses and digital media content distribution in China are developing and subject to future changes. If we or any of our Consolidated Affiliated Entities fail to obtain or maintain all applicable permits and approvals, our business and operations would be materially and adversely affected.” of this prospectus for further details.

OUTBREAK OF CORONAVIRUS

In late December 2019, there has been an outbreak of coronavirus in the PRC, Hong Kong and other countries (the “**Coronavirus Outbreak**”). As a result of this outbreak, all business entities were required by the relevant PRC authority to suspend their operation and services with resumption postponed to 10 February 2020 following the Chinese New Year holidays. Based on the current situation of the Coronavirus Outbreak and up to the Latest Practicable Date, our mobile games can continue to be downloaded and played by players and digital media content can continue to be subscribed with all settlement services continued. We are also able to continue our cooperation with our suppliers and business partners through electronic media and telephone and remote access to our information technology system. As such, there is no interruption to our business and our Directors are of the view that there is very minimal impact to our business, including daily operations, senior management and employees. However, in case the Coronavirus Outbreak is prolonged and the PRC government continues to restrict or limit the working days in the coming few months, our research and development team staff would not be able to access our various sophisticated systems for graphic design and audio effect etc, which may result in a delay in the development and launching of new mobile games from our planned schedule.

In case the Coronavirus Outbreak is prolonged to a large extent that office building or the nearby proximity is closed for access, we have formulated contingency plan which includes requiring the staff of our Group to (i) work from home and provide them with appropriate computer to facilitate their efficient remote access to the information technology system of our Group; and (ii) maintain effective communication with internal and external parties, such as suppliers, China Mobile Internet and other business partners by electronic media or telephone without unnecessary physical meeting or travelling. Due to the information technology based nature of business of our Group and the online clearing system maintained by China Mobile Internet, our Directors believe that the contingency plan could mitigate the potential impact effectively.

Despite uncertainties brought about by the Coronavirus Outbreak in the PRC (please refer to the paragraph headed “Risk factors - Risk of acts of war, natural disasters, epidemics and other disasters” for details of the risk), taking into account the information technology nature of our business which is, in general, relatively less affected by the restrictions of people's mobility as a result of the Coronavirus Outbreak, and our current financial position, our Directors believe that we can remain financially viable at least for the coming years in case our operation is affected to an extreme circumstance that our revenue becomes minimal.

Our Directors have confirmed that, except for the Listing expenses as disclosed in this prospectus, subsequent to the Track Record Period and up to the Latest Practicable Date, there has been no material adverse change in our financial or trading position or prospects and no event has occurred that would materially and adversely affect the information shown in our combined financial statements set out in the Accountants’ Report included in Appendix I to this prospectus.

Excluding the Listing expense incurred and to be incurred, it is expected that our profit for FY2019 will be decreased as compared to our profit for FY2018, which is mainly due to the higher income tax expenses incurred and to be incurred mainly arising from the implementation of the Contractual Arrangements in February 2019. For details, please see the paragraph headed “Risk Factors — Risks Relating to our Contractual Arrangements — We will be subject to higher income tax rates and incur additional taxes as a result of the Contractual Arrangements, which may increase our tax expenses and decrease our net profit margin.”

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 and trading position or prospects since 30 September 2019, and there is no event since 30 September 2019 which would materially affect the information shown in the accountants’ report and the profit estimate of our Group for the year ended 31 December 2019 set out in Appendix IIB to this prospectus.

REASONS FOR LISTING

As a digital entertainment content provider, we believe our Group’s competitiveness and future development are dependent on our ability to introduce new technology, increase the quality

SUMMARY AND HIGHLIGHTS

of our entertainment content, and secure funds for developing increasingly sophisticated games to maintain our revenue growth. We believe our Group could realize these objectives from the financial resources after the Listing by enabling us to increase our bargaining powers with suppliers and business partners, and to secure sufficient resources to develop games and/or obtain licensing rights of popular games and entertainment properties as well as media content. In addition, we believe the Listing will support our long-term business strategies and business expansion by (i) gaining access to capital market; (ii) enhancing our profile, visibility and our market presence; (iii) enhancing our corporate governance and operational efficiency; and (iv) enhancing employee loyalty and incentive. Prior to the Listing, funding of our business activities was primarily from our own internally generated cash flow. Our Directors have considered debt financing from banks to fund our future business growth, but given the low loan principal and short repayment term offered by the banks, our Directors are of the view debt financing cannot support our long-term business strategies.

Please see the section headed “Future Plans and Use of Proceeds — Use of Existing Cash and Cash Equivalents and Reasons for Listing” for details.

USE OF PROCEEDS

The net proceeds from the Global Offering, after deducting underwriting fees and commissions and other expenses in connection with the Global Offering and assuming the Over-allotment Option is not exercised and an Offer Price of HK\$1.65 per Share, being the mid-point of the proposed Offer Price range of HK\$1.50 to HK\$1.80 per Share, are estimated to be approximately HK\$132.4 million. We intend to use the net proceeds as follows:

- (i) approximately HK\$32.2 million, representing approximately 24.3% of the net proceeds, will be used to expand our market share in mobile games with a strategic focus on boutique games;
- (ii) approximately HK\$20.4 million, representing approximately 15.4% of the net proceeds, will be used to expedite our expansion in the multi-player mobile game market;
- (iii) approximately HK\$26.9 million, representing approximately 20.3% of the net proceeds, will be used to obtain licensing rights of popular entertainment properties to develop boutique mobile games, covering both up-and-coming characters featured in animated television series or motion pictures as well as evergreen characters;
- (iv) approximately HK\$1.6 million, representing approximately 1.2% of the net proceeds, will be used to enrich our digital media content, by obtaining licensing rights of popular and/or exclusive titles and debut offerings, broadening our mobile internet distribution channels of our digital content for readers as well as expanding the operation and marketing team for strengthening our collaboration with distribution channel providers in respect of our digital media content;
- (v) approximately HK\$40.2 million, representing approximately 30.4% of the net proceeds, will be used for strategic acquisitions and partnerships with complementary mobile game developers, especially those with capabilities in artwork and design or those which possess an established distribution network. As of the Latest Practicable Date, we have not identified any specific suitable target for potential acquisitions and suitable partners to form potential joint ventures; and
- (vi) approximately HK\$11.1 million, representing approximately 8.4% of the net proceeds, will be used for our general working capital purposes.

Please see the section headed “Future Plans and Use of Proceeds” for details.

DIVIDEND AND DIVIDEND POLICY

No dividend has been paid or declared by our Company since its date of incorporation. During FY2016, FY2017, FY2018 and 9M2019, we declared dividends of nil, RMB65.1 million, RMB46.5 million and nil, respectively, to our then shareholders, among which RMB9.5 million was unpaid as at the Latest Practicable Date. We will settle such unpaid dividend before the Listing using internal resources.

We currently aim to pay a total dividend in respect of each of financial year of not less than 30% of our distributable profits for the corresponding financial year, subject to the Articles of Association, the Cayman Islands Companies Law and other applicable laws and regulations, as well as factors and considerations more specifically set out in the section headed “Financial Information — Dividend and Dividend Policy”. We cannot assure you that we will be able to distribute dividend of the above amount or any amount or at all, in any particular financial year.

SUMMARY AND HIGHLIGHTS

Please see the sections headed “Financial Information — Dividend and Dividend Policy”, “Risk Factors — Risks Relating to Conducting Business in the PRC — Fluctuations in the value of the Renminbi and other currencies may have a material adverse impact on your investment” and “Risk Factors — Risks Relating to Conducting Business in the PRC — the PRC government’s control of foreign currency conversion may limit our foreign exchange transactions, including dividend payments on our Shares” for details.

GLOBAL OFFERING STATISTICS

All statistics in this table are based on the assumption that the Over-allotment Option is not exercised.

	Based on an Offer Price of HK\$1.35 per Share, after Downward Offer Price Adjustment of 10%	Based on minimum indicative Offer Price of HK\$1.50 per Share	Based on maximum indicative Offer Price of HK\$1.80 per Share
Market capitalization of our Shares	HK\$737.1 million	HK\$819.0 million	HK\$982.8 million
Unaudited pro forma adjusted net tangible asset value per Share	HK\$0.45	HK\$0.48	HK\$0.53

Note: Please see the section headed “Unaudited Pro Forma Financial Information” in Appendix IIA to this prospectus for details.

LEGAL COMPLIANCE

Our Directors are of the view that we have adequate and effective internal control procedures in place in accordance with the requirements under the Listing Rules, and the non-compliance incidents disclosed in this prospectus will not affect the suitability of our Directors to act as directors of a listed issuer under Rules 3.08, 3.09 and 8.15 of the Listing Rules, and the suitability for the listing of our Company under Rule 8.04 of the Listing Rules.

Please see the section headed “Business — Legal Proceedings and Compliance” for details.

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following words and expressions shall have the following meanings.

“2018 Draft FIL”	the draft version of the Foreign Investment Law of the PRC* (中華人民共和國外商投資法 (草案)) drafted by MOFCOM, the National Development and Reform Commission and the Ministry of Justice of the PRC, and submitted by the State Council to the SCNPC for consideration on 23 December 2018
“28 Subsidiaries”	28 directly or indirectly wholly-owned subsidiaries of Family Doctor which were no longer involved in our businesses, details of which are set out in the section headed “History, Reorganization and Group Structure”
“9M2018”	nine months ended 30 September 2018
“9M2019”	nine months ended 30 September 2019
“AE Majoris Tech”	AE Majoris Tech Investment Company Limited, a company incorporated under the laws of the BVI on 14 May 2018 owned as to 86.67% by Mr. Tsui and 13.33% collectively by Mr. Jim Rogers and Ms. Paige Parker
“AEM PIPO”	AEM PIPO Investment Fund, an investment fund incorporated under the laws of the Cayman Islands on 11 April 2018 owned by various investors who are Independent Third Parties
“affiliate”	any person, directly or indirectly, controlling, controlled by or under direct or indirect common control with another person
“Application Form(s)”	WHITE Application Form(s), YELLOW Application Form(s) and GREEN Application Form(s), or where the context so requires, any of them, that are used in connection with the Hong Kong Public Offering
“Articles” or “Articles of Association”	the amended and restated articles of association of the Company conditionally adopted on 21 February 2020 which will take effect from the Listing Date, as amended from time to time
“associate(s)”	has the meaning ascribed thereto under the Listing Rules

DEFINITIONS

“Audit Committee”	the audit committee of the Board
“Board Lot”	the board lot of 2,000 Shares in which the Shares are traded on the Stock Exchange from time to time
“Board of Directors” or “Board”	the board of Directors of our Company
“Business Day”	any day (other than a Saturday, Sunday or public holiday in Hong Kong) on which banks in Hong Kong are open generally for normal banking business to the public
“BVI”	British Virgin Islands
“CAGR”	compound annual growth rate
“Capitalization Issue”	the capitalization of an amount standing to the credit of the share premium account of our Company by applying such sum in paying up in full 419,893,010 Shares for allotment and issue to our Shareholders as resolved by our Shareholders on 21 February 2020
“Catalog”	Guidelines Catalog of Industries of Foreign Investment (2017 Revision)* (外商投資產業指導目錄(2017年修訂))
“Cayman Islands Companies Law”	the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands as amended, supplemented or otherwise modified from time to time
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or a general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS 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

DEFINITIONS

“Corporate Governance Code”	Corporate Governance Code set out as Appendix 14 to the Listing Rules
“Chairman”	the chairman of the Board
“China”, “Mainland China” or “PRC”	the People’s Republic of China and, for the purpose of this prospectus only, excludes Hong Kong, Taiwan and Macau Special Administrative Region
“China Mobile Internet”	China Mobile Internet Co., Ltd. (中移互聯網有限公司), a limited liability company established under the laws of the PRC on 30 October 2015 and an indirect wholly-owned subsidiary of China Mobile Limited, a company listed on the Stock Exchange (HKEX: 941) and the New York Stock Exchange (NYSE: CHL)
“Circular No. 37”	the PRC Circular on Relevant Issues concerning Foreign Exchange Administration of Overseas Investment and Financing and Return Investment by Domestic Residents via Special Purpose Vehicles (《國家外匯管理局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》) promulgated by SAFE on 4 July 2014
“close associate”	has the meaning ascribed thereto under the Listing Rules
“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance of Hong Kong (Chapter 32 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Companies Ordinance”	the Companies Ordinance of Hong Kong (Chapter 622 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Company” or “our Company”	Jiu Zun Digital Interactive Entertainment Group Holdings Limited (九尊數字互娛集團控股有限公司), an exempted company with limited liability incorporated in the Cayman Islands under the Cayman Islands Companies Law on 5 February 2018
“connected person(s)”	has the meaning ascribed thereto in the Listing Rules
“connected transaction(s)”	has the meaning ascribed thereto in the Listing Rules

DEFINITIONS

“Consolidated Affiliated Entities”	the entities we control through the Contractual Arrangements, namely Guangzhou Jiu Zun and its subsidiaries
“Contractual Arrangement(s)”	the series of contractual arrangements entered into between WFOE, Guangzhou Jiu Zun and the Relevant Shareholders, details of which are set out in the section headed “Contractual Arrangements”
“Controlling Shareholders”	has the meaning ascribed thereto under the Listing Rules and unless the context otherwise requires, refers to Mr. Lu, Ms. He (being Mr. Lu’s spouse), Ms. Su, Mr. Liang, LJHJH SAGA, WW SAGA and JLCY SAGA
“CSRC”	the China Securities Regulatory Commission (中國證券監督管理委員會)
“CPCC”	the Copyright Protection Center of China
“Deed of Indemnity”	the deed of indemnity dated 21 February 2020 and executed by our Controlling Shareholders in favor of our Company, details of which are set out in the section headed “Statutory and General Information — D. Other Information — 2. Estate duty, tax and other indemnity” in Appendix IV to this prospectus
“Director(s)” or “our Directors”	director(s) of our Company
“Downward Offer Price Adjustment”	an adjustment that has the effect of setting the final Offer Price up to 10% below the bottom end of the indicative Offer Price range
“DW”	Captain Player Dragon Wing Investment Company Limited, a limited liability company incorporated under the laws of the BVI on 13 July 2017 wholly owned by Mr. Xu
“DW SAGA”	Captain Player Dragon Wing SAGA Investment Company Limited, a limited liability company incorporated under the laws of the BVI on 7 May 2018 wholly owned by Mr. Xu
“electronic application instruction(s)”	instruction given by a CCASS Participant electronically via CCASS to HKSCC, being one of the methods to apply for the Hong Kong Offer Shares

DEFINITIONS

“Emperor Interactive Entertainment”	Emperor Interactive Entertainment Development Company Limited (九尊互娛發展有限公司), a limited liability company incorporated under the laws of the BVI on 11 January 2018 and a direct wholly-owned subsidiary of our Company
“Equity Pledge Agreement”	the equity pledge agreement entered into among WFOE, Guangzhou Jiu Zun and the Relevant Shareholders, details of which are set out in the section headed “Contractual Arrangements — Summary of the Material Terms of the Contractual Arrangements — Equity Pledge Agreement” of this prospectus
“Family Doctor”	廣州家庭醫生信息技術有限公司 (Guangzhou Family Doctor Information Technology Company Limited*), a company established under the laws of the PRC with limited liability on 5 May 2011 and, by virtue of the Contractual Arrangements, accounted for as our subsidiary owned as to 93% by Guangzhou Jiu Zun and 7% by the late Mr. Chen
“Formal Notice”	the formal notice to be published in connection with the Hong Kong Public Offering on or around Thursday, 27 February 2020, in substantially agreed form and in accordance with the requirements under Rule 12.02 of the Listing Rules (as amended or supplemented)
“Frost & Sullivan”	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., an independent market research and consulting company
“Frost & Sullivan Report”	the report from Frost & Sullivan commissioned by our Group
“FY2016”	the financial year ended 31 December 2016
“FY2017”	the financial year ended 31 December 2017
“FY2018”	the financial year ended 31 December 2018
“FY2019”	the financial year ended 31 December 2019
“GAPP”	the General Administration of Press and Publication (新聞出版總署) of the PRC

DEFINITIONS

“Global Offering”	the Hong Kong Public Offering and the International Placing
“ GREEN Application Form(s)”	the application form(s) to be completed by HK eIPO White Form Service Provider designated by our Company
“Group”, “we”, “our”, “our Group” and “us”	our Company, its subsidiaries and our Consolidated Affiliated Entities from time to time or, where the context so requires, in respect of the period prior to our Company becoming the holding company of its present subsidiaries, such subsidiaries as if they were subsidiaries of our Company at the relevant time
“Guangzhou Jiu Zun”	廣州市九尊數娛科技發展有限公司 (Guangzhou Jiu Zun Digital Entertainment Technology Development Company Limited*), a company established under the laws of the PRC with limited liability on 13 April 2018 and by virtue of the Contractual Arrangements, accounted for as our subsidiary owned as to 32.26%, 26.88%, 26.88%, 7.53% and 6.45% by Mr. Liang, Yujiang Yingming Investment, Yujiang Chenghe Investment, Mr. Xu and Ms. Zhang
“Guangzhou Medical e-Commerce”	廣州醫米電子商務有限公司 (Guangzhou Medical e-Commerce Company Limited*), a company established under the laws of the PRC with limited liability on 4 December 2014 owned as to 51% and 49% by Mr. Yu Benyuan (余本元先生) and Ms. Li Liqing (李麗清女士), both of whom are Independent Third Parties, respectively, as at Latest Practicable Date
“Guangzhou Medical Network Technology”	廣州醫米網絡科技有限公司 (Guangzhou Medical Network Technology Company Limited*), a company established under the laws of the PRC with limited liability on 9 December 2014 owned as to 51% and 49% by Ms. Lv Lingling (呂玲玲女士) and Ms. Li Liqing (李麗清女士), both of whom are Independent Third Parties, respectively, as at Latest Practicable Date
“ HK eIPO White Form ”	the application process for Hong Kong Offer Shares with applications issued in the applicant’s own name and submitted online through the designated website of www.hkeipo.hk or in the IPO App

DEFINITIONS

“ HK eIPO White Form Service Provider”	the HK eIPO White Form service provider designated by our Company, as specified on the designated website at <u>www.hkeipo.hk</u> or in the IPO App
“HKASs”	Hong Kong Accounting Standards, as issued by the HKICPA
“HKFRSs”	Hong Kong Financial Reporting Standards, as issued by the Hong Kong Institute of Certified Public Accountants
“HKICPA”	The Hong Kong Institute of Certified Public Accountants
“HKSCC”	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly owned subsidiary of HKSCC
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Branch Share Registrar”	Tricor Investor Services Limited, the branch share registrar of the Company in Hong Kong
“Hong Kong dollars” or “HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong Offer Shares”	the 12,600,000 new Shares initially being offered by our Company for subscription pursuant to the Hong Kong Public Offering at the Offer Price, subject to any adjustment or re-allocation as set out in the section headed “Structure and Conditions of the Global Offering”

DEFINITIONS

“Hong Kong Public Offering”	the offer of Hong Kong Offer Shares for subscription by the public in Hong Kong at the Offer Price (plus a brokerage fee of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%) on the terms and subject to the conditions described in this prospectus and the Application Forms relating thereto, as further set out in the section headed “Structure and Conditions of the Global Offering — Hong Kong Public Offering”
“Hong Kong Underwriters”	the underwriters for the Hong Kong Public Offering as set out in the section headed “Underwriting — Hong Kong Underwriters”
“Hong Kong Underwriting Agreement”	the underwriting agreement dated 26 February 2020 relating to the Hong Kong Public Offering entered into by among others, our Company, our executive Directors, our Controlling Shareholders, the Sole Sponsor, the Joint Global Coordinators and the Hong Kong Underwriters, as further set out in the section headed “Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Hong Kong Underwriting Agreement”
“ICP licence”	value-added telecommunications business operation licence with a service scope of information services of Category 2 value-added telecommunication services by the relevant PRC government authorities
“Independent Third Party(ies)”	any entity or person who is not a connected person within the meaning ascribed under the Listing Rules
“Intellectual Property Transfer and Licence Agreement”	the intellectual property transfer and licence agreement entered into between WFOE, Guangzhou Jiu Zun and the Relevant Shareholders, details of which are set out in the section headed “Contractual Arrangements — Summary of the Material Terms of the Contractual Arrangement — Intellectual Property Transfer and Licence Agreement”

DEFINITIONS

“International Placing”	the conditional placing of the International Placing Shares by the International Underwriters for and on behalf of our Company to institutional, professional, corporate and other investors in Hong Kong and elsewhere in the world outside the United States in reliance on Regulation S of the U.S. Securities Act, or and subject to the terms and conditions under the International Underwriting Agreement, as further set out in the section headed “Structure and Conditions of the Global Offering”
“International Placing Shares”	113,400,000 new Shares being initially offered by our Company for subscription under the International Placing subject to adjustment and together, where relevant, with any additional Shares which may fall to be issued pursuant to the exercise of the Over-allotment Option as further set out in the section headed “Structure and Conditions of the Global Offering”
“International Underwriters”	the underwriter(s) for the International Placing who are expected to be entered into the International Underwriting Agreement
“International Underwriting Agreement”	the underwriting agreement expected to be entered into on or around the Price Determination Date by, among others, our Company, our executive Directors, our Controlling Shareholders, the Sole Sponsor, the Joint Global Coordinators and the International Underwriters relating to the International Placing
“Internet Culture Provisions”	the Interim Administrative Provisions on Internet Culture (《互聯網文化管理暫行規定》), which was promulgated by the MOC on 17 February 2011
“IPO App”	the mobile application for HK eIPO White Form service which can be downloaded by searching “ IPO App ” in App store or Google Play or downloaded at www.hkeipo.hk/IPOApp or www.tricorglobal.com/IPOApp
“Irrevocable Option Agreement”	the irrevocable option agreement entered into among WFOE, Guangzhou Jiu Zun and the Relevant Shareholders, details of which are set out in the section headed “Contractual Arrangements — Summary of the Material Terms of the Contractual Arrangements — Irrevocable Option Agreement”

DEFINITIONS

“Jiu Zun Hu Yu”	Jiu Zun Hu Yu Entertainment Technology Company Limited (九尊互娱科技有限公司), a limited liability company incorporated under the laws of Hong Kong on 27 February 2018 and an indirect wholly-owned subsidiary of our Company
“JL”	Captain JL Technology Company Limited, a limited liability company incorporated under the laws of the BVI on 17 January 2018 wholly owned by Mr. Liang
“JLCY SAGA”	Captain Player JLCY SAGA Investment Company Limited, a limited liability company incorporated under the laws of the BVI on 7 May 2018 wholly owned by Mr. Liang
“Joint Bookrunners”	Elstone Securities Limited, Lego Securities Limited, Guosen Securities (HK) Capital Company Limited, Alpha Financial Group Limited, BOCOM International Securities Limited, China Tonghai Securities Limited, CMBC Securities Company Limited, Essence International Securities (Hong Kong) Limited and Great Roc Capital Securities Limited
“Joint Global Coordinators”	Elstone Securities Limited, Lego Securities Limited and Guosen Securities (HK) Capital Company Limited
“Joint Lead Managers”	Elstone Securities Limited, Lego Securities Limited, Guosen Securities (HK) Capital Company Limited, Alpha Financial Group Limited, BOCOM International Securities Limited, China Tonghai Securities Limited, CMBC Securities Company Limited, Essence International Securities (Hong Kong) Limited, Great Roc Capital Securities Limited, Conrad Investment Services Limited and Lee Go Securities Limited
“Latest Practicable Date”	Tuesday, 18 February 2020, being the latest practicable date for ascertaining certain information in this prospectus before its publication
“Leading Mobile Payment Platform A”	one of the top two third-party mobile and online payment platforms in China in terms of number of users from 2017 up to 30 September 2019

DEFINITIONS

“Leading Mobile Payment Platform B”	one of the top two third-party mobile and online payment platforms in China in terms of number of users from 2017 up to 30 September 2019
“Leading Mobile Payment Platforms”	the Leading Mobile Payment Platform A and Leading Mobile Payment Platform B
“Listing”	the listing of the Shares on the Main Board of the Stock Exchange
“Listing Committee”	the listing committee of the Stock Exchange
“Listing Date”	the date, expected to be Tuesday, 17 March 2020, on which the Shares are listed and from which dealings in the Shares are permitted to take place on the Main Board of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange (as amended, supplemented or otherwise modified from time to time)
“LJHJH”	Captain Player LJHJH Investment Company Limited, a limited liability company incorporated under the laws of the BVI on 13 July 2017 owned as to 99.9% by Mr. Lu and 0.1% by Ms. He (being Mr. Lu’s spouse)
“LJHJH SAGA”	Captain Player LJHJH SAGA Investment Company Limited, a limited liability company incorporated under the laws of the BVI on 7 May 2018 owned as to 99.9% by Mr. Lu and 0.1% by Ms. He (being Mr. Lu’s spouse)
“LTZL”	Captain Player LTZL Investment Company Limited, a limited liability company incorporated under the laws of the BVI on 13 July 2017 wholly owned by Ms. Zhang
“LTZL SAGA”	Captain Player LTZL SAGA Investment Company Limited, a limited liability company incorporated under the laws of the BVI on 7 May 2018 wholly owned by Ms. Zhang
“Main Board”	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operates in parallel with the Growth Enterprise Market of the Stock Exchange

DEFINITIONS

“Management Services Agreement”	the management services agreement entered into among WFOE, Guangzhou Jiu Zun and the Relevant Shareholders, details of which are set out in the section headed “Contractual Arrangements — Summary of the Material Terms of the Contractual Arrangements — Management Services Agreement”
“Memorandum” or “Memorandum of Association”	the amended and restated memorandum of association of our Company, conditionally adopted on 21 February 2020 which will take effect from the Listing Date and as amended from time to time
“Memorandum and Articles of Association”	collectively, the Memorandum and the Articles
“MIIT”	the Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部)
“Ministry of Culture” or “MOC”	the Ministry of Culture of the PRC (中華人民共和國文化 部), which is reformed and known as the Ministry of Culture and Tourism (中華人民共和國文化和旅遊部) since 18 March 2018
“MOE”	the Ministry of Education of the PRC (中華人民共和國教育 部)
“MOFCOM”	the Ministry of Commerce of the PRC (中華人民共和國 商務部)
“MPS”	the Ministry of Public Securities of the PRC (中華人民共 和國公安部)
“Mr. Chen”	Mr. Chen Leqiang (陳樂強), the deceased beneficial owner of 7% equity interest in Family Doctor
“Mr. Jim Rogers”	Mr. James Beeland Rogers JR., also known as Jim Rogers, an Independent Third Party who owns 13.33% shareholding in AE Majoris Tech together with his spouse Ms. Paige Parker
“Mr. Liang”	Mr. Liang Junhua (梁俊華), our chief financial officer, and executive Director and one of our Controlling Shareholders

DEFINITIONS

“Mr. Lu”	Mr. Lu Jian (呂建), our Chairman, chief executive officer and executive Director and one of our Controlling Shareholders, and the spouse of Ms. He
“Mr. Tsui”	Mr. Tsui Wing Tak (徐穎德), our non-executive Director and the company secretary of our Company
“Mr. Xu”	Mr. Xu Guangming (徐光明), the beneficial owner of 7.53% equity interest in Guangzhou Jiu Zun
“Ms. He”	Ms. He Junhong (何軍紅), the spouse of Mr. Lu and one of our Controlling Shareholders
“Ms. Paige Parker”	Ms. Paige Anderson Parker, an Independent Third Party who owns 13.33% shareholding in AE Majoris Tech together with her spouse Mr. Jim Rogers
“Ms. Rong”	Ms. Rong Hongmei (榮紅梅), one of our senior management
“Ms. Su”	Ms. Su Shaoping (蘇少萍), our non-executive Director and one of our Controlling Shareholders
“Ms. Zhang”	Ms. Zhang Li (張麗), the beneficial owner of 6.45% equity interest in Guangzhou Jiu Zun
“NEEQ”	National Equities Exchange and Quotations System
“Nomination Committee”	the nomination committee of the Board
“Offer Price”	the final Hong Kong dollar price per Offer Share (exclusive of brokerage, SFC transaction levy and Stock Exchange trading fee) at which the Offer Shares are to be offered for subscription pursuant to the Global Offering, to be determined in the manner further described in the section headed “Structure and Conditions of the Global Offering — Price Determination of the Global Offering”, subject to any Downward Offer Price Adjustment
“Offer Shares”	the Hong Kong Offer Shares and the International Placing Shares together, where relevant, with any additional Shares to be issued by our Company pursuant to the exercise of the Over-allotment Option

DEFINITIONS

“Over-allotment Option”	the option expected to be granted by our Company to the International Underwriters, exercisable by the Joint Global Coordinators pursuant to the International Underwriting Agreement for up to 30 days from the day following the last day for the lodging of applications under the Hong Kong Public Offering, to require our Company to allot and issue up to 18,900,000 additional new Shares, the Offer Price (representing 15% of the number of Offer Shares initially being offered under the Global Offering) at the Offer Price, to cover over-allocations in the International Placing, if any, as further set out in the section headed “Structure and Conditions of the Global Offering — International Placing — Over-allotment Option”
“PBOC”	the People’s Bank of China (中國人民銀行), the central bank of the PRC
“Per cent.” or “%”	percentage or per centum
“PRC government” or “State”	the government of the PRC, including all governmental subdivisions (including provincial, municipal and other regional or local government entities) and instrumentalities thereof, or where the context requires, any of them
“PRC Legal Advisers”	China Commercial Law Firm, a qualified PRC law firm as the PRC legal advisers to our Company for the application for Listing
“Pre-IPO Convertible Bonds”	the zero coupon convertible bonds issued by our Company in the aggregate principal amount of HK\$19,000,000 to AEM PIPO and AE Majoris Tech pursuant to the Subscription Agreement, as amended and supplemented by the Supplemental Deed
“Pre-IPO Convertible Bonds Instrument”	the instrument dated 29 May 2018 executed by our Company constituting the Pre-IPO Convertible Bonds
“Price Determination Date”	the date, expected to be on or around Tuesday, 10 March 2020 on which the Offer Price is fixed for the purposes of the Global Offering, and in any event no later than Friday, 13 March 2020
“Principal Share Registrar”	Conyers Trust Company (Cayman) Limited

DEFINITIONS

“prospectus”	this prospectus being issued in connection with the Hong Kong Public Offering
“Regulation S”	Regulation S under the U.S. Securities Act
“Relevant Shareholders”	Mr. Liang, Yujiang Chenghe Investment, Yujiang Yingming Investment, Mr. Xu and Ms. Zhang, all of whom are registered shareholders of Guangzhou Jiu Zun
“Remuneration Committee”	the remuneration committee of the Board
“Reorganization”	the reorganization of our Group in preparation for the Listing, details of which are set out in the section headed “History, Reorganization and Group Structure — Corporate Reorganization”
“Reporting Accountant”	Ernst & Young, the auditor and reporting accountant of our Company
“Repurchase Mandate”	the general unconditional mandate given to the Directors by the Shareholders relating to the repurchase of Shares, as further set out in the section headed “Statutory and General Information — A. Further information about our Company — 3. Resolutions in writing of our Shareholders passed on 21 February 2020” in Appendix IV to this prospectus
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“SAFE”	the State Administration for Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
“SAIC”	the State Administration of Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局)

DEFINITIONS

“SAPPRFT”	the State Administration of Press, Publication, Radio, Film and Television of the PRC (中華人民共和國國家新聞出版廣電總局), formerly known as the General Administration of Press and Publication of the PRC (中華人民共和國新聞出版總署) and the State Administration of Radio, Film and Television of the PRC (中華人民共和國國家廣播電影電視總局), which is reformed and known as the State Administration of Radio and Television of the PRC (中華人民共和國國家廣播電視總局) under the State Council and the National Administration of Press and Publication (National Copyright Bureau) (中華人民共和國國家新聞出版署(國家版權局)) under the Propaganda Department of the Central Committee of the CPC (中共中央宣傳部) since March 2018
“SAT”	the State Administration of Taxation of the PRC (中華人民共和國國家稅務總局)
“SCNPC”	the Standing Committee of the National People’s Congress of the PRC (《全國人民代表大會》)
“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
“Share Option Scheme”	the share option scheme conditionally adopted by our Company on 21 February 2020 for the benefit of our Directors, members of senior management, employees and other eligible participants defined in the scheme, a summary of the principal terms of which is set forth in “Appendix IV — Statutory and General Information — D. Other Information — 1. Share Option Scheme” to this prospectus
“Share(s)”	ordinary share(s) in the share capital of our Company
“Shareholder(s)”	holder(s) of the Share(s)

DEFINITIONS

“Shenzhen Zhongjin”	深圳市中金通用投資有限公司 (Shenzhen Zhongjin Tongyong Investment Company Limited*), a company established under the laws of the PRC with limited liability on 30 March 2015 and wholly-owned by Mr. Zhang Zhenhua (張振華先生), cousin of Mr. Liang
“Sole Sponsor”	Lego Corporate Finance Limited, a licensed corporation registered under the SFO to carry on Type 6 (advising on corporate finance) regulated activity as defined in the SFO
“Stabilizing Manager”	Elstone Securities Limited
“State Council”	the State Council of the PRC (中華人民共和國國務院)
“Stock Borrowing Agreement”	a stock borrowing agreement expected to be entered into between JLCY SAGA and the Stabilizing Manager
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Agreement”	a subscription agreement dated 28 May 2018 entered into between our Company as issuer and AEM PIPO and AE Majoris Tech as subscribers in respect of the issuance and subscription of the Pre-IPO Convertible Bonds
“subsidiaries”	has the meaning ascribed thereto in the Listing Rules
“Substantial Shareholder(s)”	has the meaning ascribed thereto in the Listing Rules
“Supplemental Deed”	the supplemental deed to the Pre-IPO Convertible Bonds Instrument dated 20 December 2019 executed by our Company
“Supplier Group Snowfish”	means 上海雪鯉魚計算機科技有限公司 (Shanghai Snowfish Computer Technology Limited*), a limited liability company established under the laws of the PRC on 18 May 2005, and/or its direct wholly-owned subsidiary 上海易接信息科技有限公司 (Shanghai Yijie Information Technology Limited*), a limited liability company established under the laws of the PRC on 7 July 2014; both of which are Independent Third Parties

DEFINITIONS

“Supplier Group Shouyou”

means 上海燦遊信息技術有限公司 (Shanghai Shouyou Information Technology Limited*), a limited liability company established under the laws of the PRC on 9 May 2016; 上海亢龍信息科技有限公司 (Shanghai Kanglong Information Technology Limited*), a limited liability company established under the laws of the PRC on 26 July 2011; and/or 南京漫星數字科技有限公司 (Nanjing Manxing Digital Technology Limited*), a limited liability company established under the laws of the PRC on 10 September 2016; all of which are held directly or indirectly by a common shareholder and are Independent Third Parties

“Supplier Group Yehuo”

means 上海野火網絡科技有限公司 (Shanghai Yehuo Internet Technology Limited*), a limited liability company established under the laws of the PRC on 7 December 2010 and its directly owned subsidiary 上海天筠網絡科技有限公司 (Shanghai Tianyun Internet Technology Limited*), a limited liability company established under the laws of the PRC on 20 October 2015; both of which are Independent Third Parties

“Supplier Group Yunyou”

means 珠海雲游科技有限公司 (Zhuhai Yunyou Technology Limited*), a limited liability company established under the laws of the PRC on 27 April 2010; and/or its directly owned subsidiary 廣州飛月信息科技有限公司 (Guangzhou Feiyu Information Technology Limited*), a limited liability company established under the laws of the PRC on 27 February 2015; both of which are Independent Third Parties

“Supplier Group Xiaopeng”

means 廣州小朋網絡科技有限公司 (Guangzhou Xiaopeng Internet Technology Limited*), a limited liability company established under the laws of the PRC on 12 May 2015 and its directly owned subsidiaries including 廣州聯手網絡科技有限公司 (Guangzhou Lianshou Internet Technology Limited*) and 廣州億玩網絡科技有限公司 (Guangzhou Yiwan Internet Technology Limited*), both of which were limited liability companies established under the laws of the PRC on 8 May 2017 and 5 January 2018 respectively; all of which are Independent Third Parties

“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

DEFINITIONS

“Temporary Suspension”	the temporary suspension of the approval by SAPPRFT at the national level of game registration and issuance of publication numbers for mobile games from March to December 2018 and the MOC at the national level closed its filing system for mobile games since June 2018 in the PRC, as further set out in the section headed “Business — Game Monetization — Our game portfolio”
“Track Record Period”	FY2016, FY2017, FY2018 and 9M2019
“Trademark Office”	the Trademark Office of the 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商標局), which is reformed and known as Trademark Office of the State Intellectual Property Office (國家知識產權局商標局) since 15 November 2018
“U.S. dollars” or “USD” or “US\$”	United States dollars, the lawful currency of the United States
“U.S. Securities Act”	U.S. Securities Act of 1933, as amended, supplemented or otherwise modified from time to time
“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.” or “US”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“Voting Rights Proxy Agreement and Powers of Attorney”	the voting rights proxy agreement and powers of attorney entered into among WFOE, Guangzhou Jiu Zun and the Relevant Shareholders, details of which are set out in the section headed “Contractual Arrangements — Summary of the Material Terms of the Contractual Arrangements — Voting Rights Proxy Agreement and Powers of Attorney”
“WFOE”	廣州市九尊互娛科技發展有限公司 (Guangzhou Jiu Zun Interactive Entertainment Company Limited*), a limited liability company established under the laws of the PRC on 31 May 2018 with limited liability and an indirect wholly-owned subsidiary of our Company

DEFINITIONS

“ WHITE 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
“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; and (b) extend the offer period and allow potential investors, if they so desire, to confirm their applications using an opt-in approach (ie. requiring investors to proactively confirm their applications for shares despite the changes)
“WS”	Captain WS Technology Company Limited, a limited liability company incorporated under the laws of the BVI on 17 January 2018 wholly owned by Ms. Su
“WW SAGA”	Captain Player WW SAGA Investment Company Limited, a limited liability company incorporated under the laws of the BVI on 7 May 2018 wholly owned by Ms. Su
“ YELLOW Application Form(s)”	the application form(s) for use by the public who require(s) such Hong Kong Offer Shares to be deposited directly into CCASS
“Yingtan Jiancheng Investment”	鷹潭建成投資中心 (Yingtan Jiancheng Investment Center)*, a sole proprietorship established under the laws of the PRC with limited liability on 29 October 2015 wholly owned by Ms. Su
“Yingtan Jianhe Investment”	鷹潭建和投資中心 (Yingtan Jianhe Investment Center)*, a sole proprietorship established under the laws of the PRC with limited liability on 29 October 2015 wholly owned by Ms. Su
“Yingtan Jianming Investment”	鷹潭建明投資中心 (Yingtan Jianming Investment Center)*, a sole proprietorship established under the laws of the PRC with limited liability on 29 October 2015 wholly owned by Mr. Lu
“Yingtan Jianying Investment”	鷹潭建盈投資中心 (Yingtan Jianying Investment Center)*, a sole proprietorship established under the laws of the PRC with limited liability on 29 October 2015 wholly owned by Ms. He

DEFINITIONS

“Yujiang Chenghe Investment”	余江縣成和投資中心(有限合夥) (Yujiang Chenghe Investment Center (Limited Partnership)*), a limited partnership established in the PRC on 16 November 2015 with 99.90% and 0.10% capital contribution by Yingtian Jiancheng Investment and Yingtian Jianhe Investment respectively
“Yujiang Yingming Investment”	余江縣盈明投資中心(有限合夥) (Yujiang Yingming Investment Center (Limited Partnership)*), a limited partnership established in the PRC on 16 November 2015 with 99.90% and 0.10% capital contribution by Yingtian Jianming Investment and Yingtian Jianying Investment respectively

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

** For identification purpose only*

GLOSSARY OF TECHNICAL TERMS

This glossary contains explanations of certain terms used in this prospectus that relate to our business and the industry in which we operate. These terms and their meanings may not always correspond to standard industry definitions or usage of these terms.

“adventure game(s)”	a type of action game(s) where the players are the main character of the story, using actions such as jumping, slashing, hiding, shooting and fighting with weapons with swords and guns etc. throughout the game
“advertising alliance” (廣告聯盟)	an advertising arrangement where a number of small and medium-sized websites carry out advertising campaigns for advertisers through a common alliance platform, e.g. banner ads in other apps
“alpha version testing”	a stage where all functions of a game is substantially completed. Alpha testing is a testing period which a game is put through several rounds of internal quick tests by the developer to discover all major technical issues, software bugs and marketing considerations that may exist
“Android App Store”	a digital distribution service operated and developed by Google. It serves as the official app store for Android operating system, allowing users to browse and download applications developed with the Android software development kit (SDK)
“Android operating system”	a mobile operating system developed by Google, designed primarily for touchscreen mobile devices such as smartphones and tablets.
“Android software development kit (SDK)”	refers to the process by which new applications are created for devices running the Android operating system
“app”	an application which can be downloaded to a mobile device
“AR”	augmented reality, a technology overlaying non-anchored content onto the real world

GLOSSARY OF TECHNICAL TERMS

“ARPPU”	monthly average gross receipts per paying user, calculated by dividing the average monthly gross receipts during a certain period by the MPUs during the same period
“average MPUs”	average MPUs, which is calculated by dividing the total number of paying users in a period by the number of relevant months
“beta version testing”	the testing period prior to commercial release. During beta version testing, the developer captures, monitors and analyzes user activity on a daily basis through servers and distribution channel providers in order to optimize user engagement and monetization potential
“boutique game(s)” (精品遊戲)	more sophisticated game(s) with focus on quality, storyline, IP rights, innovative gameplay mechanics, and requiring players to make in-game purchases to progress further in the game
“casual game(s)”	game(s) which feature a simple gameplay experience and without a storyline. Casual games are usually free to download and play
“DAU”	daily active users in any given period, refers to an existing registered player that has entered and played any of the mobile games on any device at least once during such period; repeated entries by the same player from the same device are counted once only
“distribution channel provider”	in relation to mobile games, include operators of game website, search engine, telecommunication operator app store, manufacturer-specific app store, advertising alliance
“elimination game(s)”	a type of games in which the player eliminate the similar objects in the game within time limit and the way of elimination and difficulty would vary with different levels
“endless run game(s)”	games in which the player character is continuously moving forward through a usually procedurally generated, theoretically endless game world

GLOSSARY OF TECHNICAL TERMS

“entertainment properties”	licensing rights of reputable and/or up-and-coming characters featured in animated television series or motion pictures granted by licensors of the entertainment properties
“evergreen game(s)”	game(s) which their nature of the games or the underlying entertainment properties attract a long-lasting popularity
“IP owner(s)”	registered owner(s) of the intellectual property rights in the game products or digital media content concerned
“licensed game(s)”	game(s) with approved title(s) that is/are licensed from game developers to operate and distribute through game distribution platforms
“MAU”	monthly active users; in any given period, refers to an existing registered player that has entered and played any of the mobile games on any device at least once during such period; repeated entries by the same player from the same device are counted once only
“mobile games”	game software on handheld mobile terminals which games allow gamers to play their games on their smartphones or tablets, with/without the need of connecting to the internet for gameplay, regular updates, download, level clearance, as well as the payment made when players purchase virtual items during the gameplay, the games can be played against other players and/or computer. It is also increasingly popular for mobile games to be distributed in the form of mini programs
“mobile payment platform”	independent third-party payment service providers which focus on merchant payment and financial technology enabling services
“MPU(s)”	monthly paying users
“OCO Licence”	Online Cultural Business Licence (網絡文化經營許可證)

GLOSSARY OF TECHNICAL TERMS

“publishing platform”	comprise websites and apps for distribution of our digital media content operated by the largest telecommunication services provider, which can be accessed by a user account and the user account is registered by the email address with a mobile phone number registered with the largest telecommunication operator in the PRC
“registered player”	a player becomes a registered player when such player downloaded any of our Group’s mobile games onto any mobile device and enters such game on such mobile device the first time
“self-developed game(s)”	game(s) that is/are developed by our game research and development team solely and/or jointly with other third party developers or we obtained licensing rights of entertainment properties from third-party game developers or IP owners to develop the games ourselves or with other third-party game developers
“SMS”	text messaging of most mobile phones which uses standardized communication protocols to enable mobile devices to exchange short text messages
“SP Licence”	Value-added Telecommunications Service Operation Permit for Internet Information Service (增值電信業務經營許可證)
“strategy and mind challenge game(s)”	a type of game(s) that requires players to win with tactics and decision-making skills
“virtual item(s)”	virtual item(s) which enhance the players’ gaming experience, by, for example, enhancing the powers, abilities or attractiveness
“VR”	virtual reality, a general term for all immersive experience

FORWARD-LOOKING STATEMENTS

FORWARD-LOOKING STATEMENTS CONTAINED IN THIS PROSPECTUS ARE SUBJECT TO RISKS AND UNCERTAINTIES.

This prospectus contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. The forward-looking statements are contained principally in the sections headed “Summary”, “Risk Factors”, “Future Plans and Use of Proceeds”, “Industry Overview”, “Business” and “Financial Information” of this prospectus. These statements relate to events that involve known and unknown risks, uncertainties and other factors, including those listed under the section headed “Risk Factors” of this prospectus, which may cause our actual results, performance or achievements to be materially different from performance or achievements expressed or implied by the forward-looking statements. These forward-looking statements include, without limitation, statements relating to:

- our business and operating strategies, plans, objectives and goals;
- the performance of global financial markets, including changes in our ability to access the capital markets and changes in the level of interest rates;
- the business opportunities that we may pursue;
- our dividend policy; and
- the amount and nature of, and potential for, future development of our business.

The words “anticipate”, “believe”, “could”, “expect”, “forecast”, “going forward”, “intend”, “may”, “plan”, “seek”, “should”, “will”, “would”, “wish” and the negative of these terms and other similar expressions, as they relate to us, are intended to identify a number of these forward-looking statements. These forward-looking statements reflect our current views with respect to future events and are not a guarantee of future occurrence of such events. Actual outcomes may differ materially from information contained in the forward-looking statements as a result of a number of uncertainties and factors, including but not limited to:

- our business and operating strategies and our ability to implement such strategies;
- our ability to develop and manage our game portfolio;
- market demand and monetization strategy for our games;
- competition for, among other things, capital, technology and skilled personnel;
- our ability to achieve growth of existing businesses and expansion of operations;
- our ability to integrate new businesses and create synergies;
- changes in the governmental policies, laws or regulations of the relevant jurisdictions in which we operate in;

FORWARD-LOOKING STATEMENTS

- our ability to attract and retain customers;
- our ability to attract and retain qualified employees and key personnel;
- our ability to protect our brand, trademarks or other intellectual property rights;
- global general economic, market and business conditions;
- the other risk factors discussed in this prospectus as well as other factors beyond our control; and
- the actions of and developments affecting our competitors.

Subject to the requirements of applicable laws, rules and regulations, we do not have any obligation to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements contained in this prospectus are qualified by reference to the cautionary statements set forth in this section as well as the risks and uncertainties discussed in the section headed “Risk Factors” of this prospectus.

RISK FACTORS

An investment in our Shares involves various risks. You should carefully consider all the information in this prospectus and, in particular, the risks and uncertainties described below before making an investment in our Shares.

The occurrence of any of the following events could materially and adversely affect our business, financial condition, results of operations or prospects. If any of these events occur, the trading price of our Shares could significantly decline and you may lose all or part of your investment. You should seek professional advice from your relevant advisers regarding your prospective investment in the context of your particular circumstances.

RISKS RELATING TO OUR BUSINESS

We generated a substantial portion of our revenue from the development and operation of mobile games. We must continue to launch new games that attract and retain a significant number of players in order to maintain our revenue growth and our competitive position.

We generated a substantial portion of our revenue from the development and operation of mobile games. During the Track Record Period, we generated revenue of approximately RMB116.5 million, RMB151.1 million, RMB90.6 million and RMB146.8 million from our mobile game development and operation business, representing approximately 83.4%, 88.5%, 63.4% and 85.9% of the total revenue for FY2016, FY2017, FY2018 and 9M2019 respectively. As a result, our growth in revenue depends largely on our ability to consistently develop and/or launch new games that achieve significant popularity as well as MPU.

Our growth depends on our ability to continuously launch new games which attract and retain players, which in turn, depends on our ability to (i) anticipate and respond to changes in players' interests and preferences and anticipate or respond to changes in the competitive landscape; (ii) develop, source, sustain and expand games which appeal to the players; (iii) effectively monetize and market new games and enhancement to our existing and prospective players; (iv) minimize launch delays and cost overrun on new games and game expansions; (v) attract, retain and motivate talents; and (vi) provide desirable customer service and timely response to customers' complaints and enquiries.

However, it is difficult to consistently anticipate players in respect of their behavior. Furthermore, the popularity of our new games depends very much on our launch timing. If there are other popular games at the time when our new games are launched, the market competition may make it difficult for us to attract sufficient players. If we do not successfully develop and/or launch games that attract and retain a significant number of players or launch new games in a favorable market condition, we may lose our existing player base and as a result, our business, financial conditions and results of operation may be materially and adversely affected.

Further, the number of our revenue generating games (including games under testing) decreased from 496 in FY2016 to 91 in FY2018 and further decreased to 79 in 9M2019 due to the combined effect of the increase in the number of withdrawn games and the decrease in the

RISK FACTORS

number of newly launched games during the Track Record Period. The underlying reasons include (i) shift of focus to develop boutique mobile games, which is in line with the industry trend, thereby necessitating us to shift the resources from less popular and profitable mobile games; and (ii) the withdrawal of the Policy-related Withdrawn Games as a result of the additional registration requirement imposed by SAPPRFT which is required to be fully complied with by the end of 2016. We cannot guarantee that the number of revenue generating games of our Group will not fall in the future, which may be caused by reasons such as changes in players preferences, technological advancements and government policies. As a result, our revenue growth and competitive position may be adversely affected.

We rely on distribution channel providers. Our operations may be adversely affected if we cannot seek replacement in a timely manner.

During the Track Record Period, our top five suppliers accounted for approximately 60.3%, 56.6%, 52.3% and 78.4% of our cost of sales for FY2016, FY2017, FY2018 and 9M2019, respectively, which all these five largest suppliers are distribution channel providers. We have entered into distribution agreements with these distribution channel providers generally for a term of one to two years. However, there is no assurance that we are able to maintain business relationships with them. They may terminate the arrangements with us in accordance with the agreements or select not to renew the agreements with us upon expiry. We cannot guarantee that we are able to source alternative distribution channel providers promptly and on comparable terms. Please see the section headed “Business — Our Suppliers” for details. Furthermore, if our distribution channel providers fail to provide satisfactory and effective distribution network to us, we may not be able to capture potential players to maintain our sales, and our business, financial condition and results of operation may be materially and adversely affected.

Our business and financial performance may be adversely affected by the PRC government policies governing the mobile games industry.

Software copyright is required to be submitted to the relevant PRC government authority such as CPCC for our games for approving and registering the copyright of their work, names of the games after the completion of alpha version testing. However, we cannot guarantee that timely approval and/or registration of our software copyright could be obtained from the relevant PRC government authorities. If we fail to do so in time, our games may not be able to be distributed on any distribution channel or launched at all and this may result in a negative impact to our business, financial operation and results of operation.

In March 2018, the Central Committee of the Communist Party of China issued the “Plans 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 National People’s Congress issued the “Institutional Reform Plans of the State Council (國務院機構改革方案)”, according to which, the SAPPRFT is reformed and became a direct agency of the State Council. Due to the series of institutional restructuring of the PRC government, the SAPPRFT at the national level has suspended the approval of game registration and issuance of publication numbers for mobile games from March 2018 to

RISK FACTORS

December 2018, and the MOC at the national level has closed the online filing system for mobile games since June 2018. As of the Latest Practicable Date, the SAPPRFT at the national level has resumed reviewing the approval of game registration. For further details on the relevant regulations, please see the section headed “Regulatory Overview — Regulations Related to Mobile Games and Internet Cultural Products (Including Digital Media Content)”.

On 21 December 2018, a government official announced in the 2018 China Game Industry Annual Conference that the authority had approved the game registration for the first batch of games since June 2018 and has issued some game publication numbers afterwards. However, it is still unclear how long the authorities will take to review and approve existing game applications. The uncertain approval procedures will affect our expected timeline to launch new games, which in turn will affect our business operations. This has, to certain extent, led to a significantly lower number of our newly launched games in FY2018. In addition, we cannot guarantee that the game registration process will not be suspended, changed or affected by other changes in the future regulatory environment, which may have a material adverse effect on our results of operations and financial condition.

Our game portfolio included games that are self-developed or licensed games. Our operations may be adversely affected if we cannot seek alternatives in a timely manner.

During the Track Record Period, revenue of our mobile game development and operation business was generated from our game portfolio of 496, 222, 91 and 79 games for FY2016, FY2017, FY2018 and 9M2019, respectively, of which, over 90% of our games were self-developed for FY2016, and over 80%, 69% and 45% of our games were self-developed games in FY2017, FY2018 and 9M2019, respectively. We may develop new games either solely on our own or source licensing rights from the third-party developers. Although we have entered into written agreements with these game licensors, there is no assurance that we are able to maintain business relationships with them. They may terminate the arrangements with us in accordance with the agreements or select not to renew the agreements with us upon expiry. If we are not able to source licensing rights of popular games developed by third parties promptly and on comparable terms or we are not able to develop popular games by ourselves or jointly with other third parties, we may not be able to sustain our growth and as a result, our business, financial condition and results of operation may be materially and adversely affected.

RISK FACTORS

If we are unable to extend the relatively expected short life cycle of our mobile games and maintain their popularity during that period, our business and financial conditions could be materially and adversely impacted.

According to the Frost & Sullivan Report, the current lifespan of a mobile game is approximately six to 12 months, with only high quality mobile games reaching longer life cycles. Our single-player mobile games generally have a life cycle ranging from four to seven months, whilst some of our evergreen mobile games have a life cycle of more than two years. The life cycle of a certain game is defined as the period of time from when the game is launched up to the cessation of revenue generation ability of that game. For more information, please refer to the section headed “Business — Game Monetization — Our game portfolio” for details. The life cycle of certain games disclosed represents the period from the month of launching such games up to the last revenue generating month, or 30 September 2019, whichever is earlier. As our first multi-player mobile game was launched in January 2019, it has not completed its life cycle and we cannot be certain of the life cycle of our multi-player mobile game. We cannot guarantee that we could maintain to extend our players’ interests for most of our games, nor can we assure you that our players will continue to purchase the virtual items. If we fail to do so, our profitability may be adversely affected.

Our net cash outflow from operating activities may affect our liquidity

For 9M2019, our Group had net cash used in operating activities of RMB96.8 million, mainly attributable to the repayment of RMB51.6 million to the 28 Subsidiaries, the increase in deposits paid to distribution channel providers and to licensors for obtaining licensing rights and the increase in trade receivables due to delay in settlement from China Mobile Internet and/or its affiliates, which acted as our major settlement agent and distribution channel provider for our mobile games and digital media during FY2016, FY2017, FY2018 and 9M2019. Please see section headed “Financial Information – Liquidity and Capital Resources” for details. We cannot ensure that we will not experience any net cash outflow from operating activities in the future. Our liquidity in the future will, to an extent, depend on our ability to maintain adequate cash inflows from operating activities and financing activities such as borrowings. Should distribution channel providers and licensors require larger deposits or China Mobile Internet and/or its affiliates further delay settlement, our liquidity and cash flows from operating activities could be materially and adversely affected.

We may be exposed to payment delays or defaults from settlement agents, which would adversely affect our cash flow or financial results.

We are exposed to credit risk in relation to our trade receivables. A credit period of 30 to 90 days was generally granted to settlement agents during the Track Record Period and the payments were generally settled by bank transfer. However, there is no assurance that we may be able to receive sales proceeds collected from our settlement agents on time. Our increase in trade receivables as at 30 September 2019 was due to the delay in payment from China Mobile Internet and/or its affiliates resulting from the upgrade of its settlement platforms. Please refer to section headed “Financial Information – Description of Certain Items of Combined

RISK FACTORS

Statements of Financial Position – Trade receivables” for details. We cannot assure you that our settlement agents will pay us in full in a timely manner or at all in the future. If our settlement agents fail to pay us in full in a timely manner, our financial condition and results of operations may be materially and adversely affected.

Substantially all of our revenue in the mobile game business is generated from our sales of virtual items to our game players. If we fail to market our games effectively, our revenue, business operation and financial conditions could be materially and adversely impacted.

All our launched games are free to download and play, while we offer our players a limited number of virtual items free of charge as a basic gameplay in our games. We generated substantially all of our revenue of our mobile game business by selling virtual in-game items and premium features, commonly known as virtual items, such as weapons, diamonds or tips to our game players to enhance the gameplay experience and facilitate the players in attaining higher game levels. As such, our revenue depends on our monetization measures and ability to attract players to play our games which in turn, will boost the purchase of virtual items.

We mostly rely on our distribution channel providers to distribute and promote our mobile games which we believe is in line with the industry. According to the distribution agreements we entered into with our distribution channel providers, our distribution channel providers are responsible for the marketing and distribution of our games, and in return they receive a certain percentage of profit sharing.

If our distribution channel providers fail to market our games effectively due to reasons beyond our control, or we fail to monetize our games, we will fail to attract our game players to purchase. These may result in a loss of interest of our player and our sales, our business, financial condition and results of operation may be materially and adversely affected.

Our game development is data driven, and we rely on our data analysis capabilities to continue developing popular games and digital media content, improving gameplay experience, and eventually enhance monetization of our games. We assess our business performance using a set of key performance indicators, such as ARPPU. Capturing accurate data is subject to various limitations. For example, for certain mobile games, we primarily collect certain data from China Mobile Internet and/or its affiliates, which is available upon our request and we do not need to pay for the access to such data, but our ability to verify such data is limited. Therefore, the key performance indicators we use may not always reflect our actual performance, and we cannot assure you that we will be able to capture accurate user information in the future. Similarly, we may incorrectly assess our key performance indicators and in turn make incorrect operational and strategic decisions. Failure to capture accurate data or an incorrect assessment of this data may adversely affect our ability to form appropriate business strategies.

RISK FACTORS

In addition, our operation team is required to analyze users' behavior (such as daily log in rate, activation rate, daily consumption and game level completion) using our data analysis engine in a timely manner. Any failure to obtain sufficient data may lead to inaccurately performing our data analysis, which could affect our game design process as well as procurement strategy with respect to our digital media contents adversely. In addition, we cannot assure you that our data will not be damaged or lost due to technical errors, security breaches or hacking incidents. Nor can we assure you that our data analysis methodology will be as effective as expected and continue to capture the latest market trends and user preferences. If any of the foregoing occurs, our business, financial condition and results of operation may be materially and adversely affected.

Our growth prospect will suffer if we are unable to continue to implement our game development strategies focusing on mobile games according to the market demand and rapidly evolving mobile game technologies.

With fast changing players' preference or evolving mobile games technology, we cannot assure you that we will be able to continuously identify, develop, operate and upgrade games to meet the market demand and capture the market share timely and effectively. However, while it typically takes a period of three days to two weeks from the inception of a game idea to launch, the success of a game under development is inherently uncertain, and our investment in resources may not generate corresponding benefits. If we fall behind in adopting new technologies or standards, our existing games may lose popularity, and our newly developed games may not be well received by our players. In addition, we may incur significant cost overrun in game development, which would materially and adversely affect our business, financial condition and results of operation. During the Track Record Period, we incurred research and development expenses of approximately RMB8.2 million, RMB8.3 million, RMB6.3 million and RMB4.8 million, respectively. If our costs incurred for developing a new game exceed the revenue generated, there will be a negative impact to our profitability. Furthermore, with our expansion in mobile game portfolio, we may not be able to upgrade our technology, network infrastructure to maintain system stability. The uncertainties we face include:

- given the fast pace with which mobile game technologies has been and will continue to be developed, we may not be able to continuously identify, develop, operate and upgrade games that are suitable for rapidly evolving mobile devices and platforms in a timely and cost-effectively manner, or at all;
- we may not be able to anticipate and effectively respond to the interests of players on mobile devices and platforms, or effectively market our mobile games to our existing players and attract new players;
- each mobile device manufacturer or mobile platform provider may establish unique technological requirements or restrictive terms and conditions for game developers on their devices or platforms, and our games may not be compatible or functional on these devices and platforms, especially immediately after such devices and platforms are upgraded;

RISK FACTORS

- as new mobile devices or new platforms are continuously launched or updated, we may encounter various technological difficulties in providing new versions of our games that function as intended on new mobile devices or platforms, and we need to devote significant resources for the creation, support and maintenance of our games to keep pace with the evolving mobile devices and platforms;
- we may need to further improve the quality and increase the option of payment methods and systems based on the mobile platforms, geographies and other factors; and
- general economic conditions, particularly economic conditions adversely affecting discretionary user spending.

These uncertainties make it difficult to assess whether we will succeed in implementing our strategy and developing commercially viable games. Any failure or delay in our efforts to implement our strategy will materially and adversely affect our business and growth prospects.

Our steady growth of our total revenue during the Track Record Period may not be indicative of our future growth, and our limited operating history makes it difficult to evaluate our growth prospects and future financial results.

We commenced our mobile game development and operation business in 2014 and our digital media content distribution business in 2012. We have a limited history upon which to evaluate the viability and sustainability of our business as well as our future prospects. Our growth rate during the Track Record Period should not be considered indicative of our future performance. Instead, you should consider our future prospects in light of the risks and uncertainties regarding:

- our ability to manage our expanding business, including attracting and retaining talents;
- our ability to continue to offer new games and enhance existing games to attract and retain players/readers and increase players' activity level and monetization ability;
- our ability to provide popular digital media content, which is provided by the third-party content providers to cater for readers' preference;
- our ability to maintain and expand our collaboration with distribution channel providers to deepen the penetration in existing markets and expand into new markets in China;
- our ability to anticipate and adapt to evolving players'/readers' interests and preferences, industry trends, market conditions and competition;

RISK FACTORS

- the availability and popularity of other forms of entertainment, particularly social games offered on social network platforms and mobile games, which are already popular in many other countries and may gain popularity in China; and
- general economic conditions and consumer sentiment that impact the level of discretionary consumer spending.

Addressing the foregoing risks and uncertainties will require significant expenditure and allocation of valuable management and employee resources. Revenue growth may slow down or even decline for a number of reasons, including failure to attract and retain players/readers, failure to continuously develop new popular games, failure to procure popular digital media content, failure to effectively market and promote our games. Besides, other factors such as our limited resources, decreased player spending, increasing competition, slowdown in the overall growth of the mobile game markets, the emergence of alternative business models or changes in regulatory environment or general economic conditions may also have negative impacts on our operations. If we fail to successfully address any of these risks and uncertainties, our business, financial condition and results of operations may be materially and adversely affected.

Any unauthorized use of our intellectual property rights by our competitors or third parties, and the expenses incurred in protecting such intellectual property rights, may adversely affect our business performance and reputation.

We believe that the intellectual property rights granted to us by game developer partners, entertainment properties IP owners and content providers as well as our own copyrights, trademark and other intellectual property are critical to our success. Any unauthorized use of our intellectual property may drive our players away from our games or our readers away from digital media content and adversely affect our business. We registered the software in China for our self-developed games to protect our copyrights. We launch sequels of our successful games series to maintain and increase our player base and extend the life cycles of our games effectively. For example, as at the Latest Practicable Date, the CPCC has granted to us a registration certificate in relation to the copyright of software of our game 機智的小鳥 (Witty Bird*), which had been one of our top five games for each of FY2016, FY2017 and FY2018. Any failure to register the copyright of software may limit our ability to protect our rights. Though we have included in the agreements with our distribution channel providers clauses which govern the protection of these intellectual property rights, we cannot assure you that they will always comply with these terms. These agreements may not effectively prevent disclosure of confidential information of the relevant intellectual property rights and may not provide an adequate remedy in the event of unauthorized use. While we actively take steps to protect our own intellectual property rights and those third-party game developers whom we cooperate with, such steps may not be adequate to prevent infringement or misappropriation of our and their intellectual property. In particular, the distribution channels or distribution platforms may conduct non-compliant actions that violate the penalty policy of China Mobile Internet and/or its affiliates, which acted as our major settlement agent and distribution channel provider and for our mobile games and digital media during FY2016, FY2017,

RISK FACTORS

FY2018 and 9M2019. The distribution channels or distribution platforms are able to do so because our Group does not have direct access to and are not aware of the identities of such distribution channels or distribution platforms from the relevant distribution channel providers. As part of the commercial arrangement, we entrust the distribution channel provider to directly distribute on the distribution channels or distribution platforms and the distribution channel provider would not reveal the identities of the said channels and platforms to protect its commercial interest. Without knowing the identities of such non-compliant distribution channels or distribution platforms, our Group is unable to control the actions of them. In addition, whilst the third-party content provider has provided an undertaking in the relevant agreement pursuant to which we obtain the licensing rights of the digital media content, we cannot assure you that the digital media content does not infringe other parties' legal rights, including copyrights.

We cannot assure you that the distribution channel providers or the third-party content providers will fully indemnify us for all damages, including regulatory penalties or third party claims, and we may have to incur a substantial amount of fees in relation to such claims, litigation or administrative actions.

We rely on key management and our business may be severely disrupted if we lose the service of our key personnel.

Our business success depends on the continuous service of our key management and development team possessing extensive operational experience and industry knowledge, in particular Mr. Lu, our Chairman, chief executive officer and executive Director, is responsible for overall management of our Group, Mr. Liang, our executive Director and chief financial officer, is in charge of overall strategic planning and business direction and Mr. Zhao Xinlin, our senior vice president of Family Doctor is in charge of our business development. They are supported by our other team members possessing wealth of experience in their respective field covering business development, interactive entertainment industry and financials. If any one or more of them are unable or unwilling to continue their present service with us, we may not be able to replace them easily and our business may be severely disrupted. For further details of the biographies of our Directors and senior management, please see the section headed "Directors and Senior Management".

We may encounter external interruptions such as system disruption, hacking or service suspension on any of the distribution platforms or the publishing platform. Any interruption to our sales of virtual items or subscription to our digital media content may materially and adversely affect our operation and reputation.

We, the distribution platforms or the publishing platform which were used in the course of our business operation may encounter system failure, computer virus attack, hacking events or service suspension, in particular for the distribution platforms which our distribution channel providers may place our games for distribution and the publishing platform which we may place our digital media content for subscription. Such websites are beyond our control. In February 2019, we were notified by the publishing platform of our digital media content that

RISK FACTORS

the new subscription service of e-magazines on their platform will be temporarily suspended until the end of the first quarter of 2019. If any of the distribution platforms or publishing platform suspend its services in relation to the sales of our virtual items or subscription of our digital media content due to their internal policy or change of government policy, our players may reduce or cease to play our games or our readers may also reduce or cease to subscribe for our digital media content. If the source codes of our games under developments got hacked or damaged under system disruption or virus attack, the timetable for launch of our games would be affected. If we or our distribution channel providers, the distribution platforms or the publishing platform fail to solve the network service problems quickly our players may not be able to download our games or purchase our virtual items or subscribe for digital media content on a timely basis. In addition, our growing operations will place increasing pressure on our servers and network capacity as we launch more mobile games and further expand our player base. As a result, our players may reduce the frequency of play or even cease to play our games or buy our virtual items. Our business and financial condition and results of operation may be materially and adversely affected.

If we are no longer able to benefit from the synergy of our business cooperation with our business partners, including China Mobile Internet and/or its affiliates and third-party content providers, our business may be adversely affected.

We primarily utilize third-party payment platforms provided by our settlement agents, to facilitate in-game purchases of virtual items, and in particular, we rely on China Mobile Internet and/or its affiliates, which acted as our major settlement agent and distribution channel provider for our mobile games during FY2016, FY2017, FY2018 and 9M2019. Any transaction process interruption in the payment platform could adversely affect our revenue. In all the online payment transactions through these channels, secured transmission of confidential information, including mobile phone numbers and critical personal information of the players over public networks, is essential to maintain their confidence in us and our games. We rely on the stability of such payment transmissions to ensure the uninterrupted payment services available to our players. We do not have control over the security measures of third-party online payment channels. If any of these third-party online payment channels fails to process, or ensure the security of, players payments for any reason, our reputation will be damaged and we may lose our paying players and discourage the potential purchases, which in turn, will materially and adversely affect our business, financial condition and results of operation.

As we collect revenue through a limited number of third-party payment channels, in particular China Mobile Internet and/or its affiliates, the concentration of our payment channels could lead to a short-term disruption in our collection of the gross billings if China Mobile Internet and/or its affiliates was to terminate its business cooperation with us, or demand commercial terms that are less favorable to us. During 2015, the group comprising China Mobile Internet and/or its affiliates underwent internal group restructuring and delayed settlement. Our business and financial condition and results of operation could be harmed if

RISK FACTORS

our relationships with any of these settlement agents deteriorate, or if any of the key payment channels experiences a decrease in their business generally or an increase in non-payment from users.

Our digital media distribution business has benefited significantly from the user base of China Mobile Internet and/or its affiliates, and possesses a strong market position in China. In addition, we have benefited from distributing our digital media content through the publishing platform, which provides us with large number of users with access to our digital media content. However, we cannot assure you that we will continue to maintain our cooperative relationships with China Mobile Internet and/or its affiliates in the future. Popular and quality content is the core driver and foundation of our digital media distribution business. We source high quality digital media content from third-party publishers. Due to the improving monetization prospects of high quality original content, there is increasing competition for quality magazine content. If we cannot maintain our cooperative relationships with China Mobile Internet and/or its affiliates at reasonable terms or at all, or we cannot successfully generate expected revenue from digital media content, and which could result in material and adverse effects to our business and results of operations.

Our games may contain undetected programming errors, flaws or other defects and may encounter external interruptions.

Our games may contain undetected programming errors, bugs, flaws, corrupted data or other defects that only become apparent after the launch of such games. The occurrence of undetected errors or defects in our games and our failure to discover and stop the external interruptions could disrupt our business, damage our reputation and deliver a negative gameplay experience. As a result, such errors, defects and external interruptions could materially and adversely affect our business, financial condition and results of operations.

We face competition in every aspect of our businesses. If we fail to compete effectively, we may lose users or third party content provider, which could materially and adversely affect our business, financial condition and results of operations.

According to the Frost & Sullivan Report, competition in the China mobile games market has become fiercer in recent years. Although the industry had a late start compared to the global mobile games market, the opportunities from the mobile games market in China had encouraged more market entrants to develop mobile games domestically. We face competition in every aspect of our business, and particularly from other companies that seek to provide platform services for digital media content creation, consumption and distribution. We compete primarily with other online digital media websites and mobile apps in China. In addition, our players face a vast array of entertainment choices. Other forms of entertainment, such as traditional personal computer and web based games or other internet-based activities such as social networking and online video, as well as activities such as television, movies and sports, are much larger and more well-established markets and may be perceived by our users to offer greater variety, affordability, interactivity and enjoyment. Our games compete against these other forms of entertainment for the discretionary time and

RISK FACTORS

spending of our users. Further, we also compete for players with various other games which may cause our failure to implement our strategy of expanding our portfolio of mobile games, as well as various other forms of traditional or online entertainment. We also compete for internet users' reading time with content providers which provide genre of content similar to us as well as physical media publishing companies in China. Please see the section headed "Business — Competition" for details. Our competitors may compete with us in a variety of ways, including obtaining exclusive licensing rights of popular digital media content, conducting marketing activities, adopting more aggressive pricing policies and making acquisitions. Such competition may significantly increase the costs for digital media content, cause us to lose our existing or potential readers, and therefore materially and adversely affect our business, financial condition and operational results.

In addition, certain online digital content providers or physical magazine publishers may continue to offer pirated content for free or at lower prices. As a result, readers may be diverted away from the publishing platform where our digital media content is distributed. In addition, any of our current or future competitors may be acquired by, receive investments from or enter into other strategic or commercial relationships with larger, more established and/or better financed companies and therefore obtain significantly greater financial, marketing, licensing and development resources than we do. If any of our competitors achieves greater market acceptance than we do or are able to offer more attractive or comparable literary content at lower cost, our users and market share may decrease, our business, financial condition and results of operation may be materially and adversely affected.

The interests of our Controlling Shareholders may not align with those of our other Shareholders.

Mr. Liang, Mr. Lu, Ms. He and Ms. Su, will indirectly hold an aggregate of approximately 61.85% of the total issued share capital of our Company, representing 23.19%, 19.33%, 19.33% and 19.33% (of which, each of Mr. Lu and Ms. He are deemed to be interested in the shares in which his/her spouse is interested) of the total issued share capital of our Company immediately upon completion of the Global Offering (without taking into account any Shares which may be issued upon exercise of the Over-allotment Option and without taking into account any Shares to be issued upon the exercise of share options granted under the Share Option Scheme), respectively. Accordingly, they will be able to exert significant control and influence over our business and on matters of significance to us and other Shareholders by voting at the general meetings of Shareholders. There is no assurance that our Controlling Shareholders will not prevent us from taking actions or exercising our rights under agreements that are beneficial to us. When conflicts of interest arise between our Controlling Shareholders and other Shareholders, our Controlling Shareholders may prevent or delay us from entering into transactions that might be desirable to other Shareholders, such as takeovers or changes in our control or management, causing loss of opportunities on the part of other Shareholders. We cannot assure you that our Controlling Shareholders will act entirely in our interest or that conflicts of interest will be resolved in our favor. The interests

RISK FACTORS

of our Controlling Shareholders may differ from the interests of our other Shareholders and our Controlling Shareholders are free to vote according to their interests.

We have not purchased any insurance for claims arising from our business, and we have not purchased any insurance to cover our main assets, properties, and business, and our limited insurance coverage could expose us to significant costs and business disruption.

Given our business nature is in service sector, there is possibility that we may be claimed by our players in the future and we have to incur significant costs to handle these complaints and possible litigation matters. We have not purchased any indemnity insurance for claims relating to losses arising from our business. A successful liability claim against us can adversely affect our financial condition.

In addition, we have not purchased any insurance to cover our main assets, including our network infrastructure, information technology, intellectual property and business. Further, we do not maintain business interruption insurance or life insurance for certain core team members. Any disruption in our network infrastructure or business operations, litigation or natural disasters may result in our incurring substantial costs and the diversion of our resources. Our insurance coverage may not be sufficient to prevent us from 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, results of operations and prospects could be materially and adversely affected.

Our acquisition may not create the synergy effect or financial and operational benefits as we expect, and we may experience difficulties managing and integrating our operations with the targets or otherwise fail to achieve the desired benefits from the acquisition.

One of our business strategies was to acquire interests in or enter into strategic partnerships with complementary mobile game developers. As this will be our first acquisition, we do not have other experience integrating other operations. We may fail to effectively manage the operations of the target companies, effectively integrate them with our other operations or otherwise obtain the desired benefits from the acquisition.

We may need to rely extensively on the target companies' management team after the acquisition, there can be no assurance that we will be able to continue to retain any of the members of the target companies' management team. If we are unable to retain the target companies' management team, we may not be able to find suitable replacements in a timely manner or at all, which could adversely impact our ability to manage and integrate our operations. Any failure to manage and integrate target companies' operations with our other operations or to otherwise realize the desired benefits from the acquisition may have a material and adverse effect on our business, financial condition, results of operations and prospects.

RISK FACTORS

Risk of acts of war, natural disasters, epidemics and other disasters

Our business operation might be affected by acts of war, natural disasters, outbreaks, epidemic and /or pandemic of infectious disease (including without limitation, the coronavirus (including the COVID-19) disasters and /or other adverse public health developments in the PRC, which are beyond our control, may impair investment or fundraising activities, and in turn, materially and adversely affect our business performance and results of operations. If there is any disruption to transportation or even force our office to close during our usual operating hours, our normal business operation including development of new mobile games may be delayed. The frequency and magnitude of effect brought by these risk are beyond our control and we could not guarantee that our information technology support systems that allow remote access of computer systems could adequately support our business operation.

RISKS RELATING TO OUR INDUSTRY

The laws and regulations governing the mobile game industries and related businesses and digital media content distribution in China are developing and subject to future changes. If we or any of our Consolidated Affiliated Entities fail to obtain or maintain all applicable permits and approvals, our business and operations would be materially and adversely affected.

The mobile game industry, including the operation of mobile games and digital media content distribution, in China is highly regulated by the PRC government. Various regulatory authorities of the central PRC government, such as the State Council, the MIIT, the SAIC, the MOFCOM, and the GAPP, and the MPS, are empowered to promulgate and implement regulations governing various aspects of the mobile game industry. On 25 October 2019, the Notice on Preventing Minors from Indulging in Online Games (《關於防止未成年人沉迷網絡遊戲的通知》) was issued by the SAPPRFT which has imposed a number of restrictions on mobile games including the time and duration where minors can spend on mobile games as well as the purchase amount one can spend in these mobile games. For further details, please see the section “Summary and Highlights – Recent Development” and “Regulatory Overview – Regulations related to mobile games and internet cultural products (including digital media content)” for further details.

If we or any of our Consolidated Affiliated 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 fines and the discontinuation of or restriction on our operations. Any such disruption in business operations would materially and adversely affect our financial condition, results of operations and prospects.

RISK FACTORS

Regulation and censorship of information disseminated online and offline in China may adversely affect our business and subject us to liability for content posted on the publishing platform, given the large amounts of contents being uploaded or disseminated on our platform.

The PRC government has enacted laws and regulations, including the Network Security Law of the People's Republic of China (《中華人民共和國網絡安全法》) governing the publishing industry, Internet access and distribution of digital media content and other information over the Internet. In the past, the PRC government has banned the distribution of content and information over the Internet or publication of books that it believes to be in violation of the PRC laws and regulations, including content that it believes is obscene or defamatory, incites violence, endangers the national security, or contravenes national interest. If the PRC regulatory authorities were to take any action to limit or prohibit the distribution of literary content through our or our partner's platforms by us, or if they find our digital media content objectionable or otherwise in violation of PRC laws or regulations, and impose penalties on us or take other administrative actions against us in the future, our business could be significantly and negatively affected.

Additional government regulations resulting from negative publicity in China regarding mobile games may have a material adverse effect on our business, financial condition, results of operations and prospects.

The media in China has reported incidents of violent crimes or out-of-game illegal conducts by players allegedly provoked by, or committed in connection with online games, including mobile games. In addition, there have been widespread negative media reports that focus on how online games are addictive, how excessive game playing could distract students and interfere with their education and how the content of online games could be obscene, superstitious or socially destabilizing. Certain non-governmental organizations may also organize protests or publicity campaigns against online game companies in order to protect youth from the risk of becoming addicted to certain online games. The PRC government may decide to adopt more stringent policies to monitor the online gaming industry as a result of adverse public reaction to perceived addiction to such games, particularly by minors. In 2007, eight PRC government authorities, including the GAPP, the MOE and the MIIT, jointly issued a notice requiring all Chinese online game operators to adopt an "anti-fatigue compliance system" in an effort to curb addiction to online games by minors ("Anti-addiction Notice"). Under the anti-fatigue compliance system, three hours or less of continuous play is defined to be "healthy," three to five hours is defined to be "fatiguing" and five hours or more is defined to be "unhealthy." Game operators, including us, are required to reduce the value of game benefits for minor players by half when those players reach the "fatigue" level, and to zero when they reach the "unhealthy" level. As at the Latest Practicable Date, the SAPPRFT does not require mobile games to be equipped with the anti-fatigue compliance system in order to be approved or filed for operation in practice. As such, we believe that anti-fatigue compliance system is not a compulsory requirement for mobile games, and have therefore only implemented the anti-fatigue system in our games. However, we cannot assure you that the governmental authorities will not take a view contrary to our understanding or our current anti-fatigue compliance system will not be regarded as insufficient by relevant government

RISK FACTORS

authorities in the PRC. More stringent government regulations on mobile games, including stricter anti-fatigue rules, could discourage players from playing our games, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

The successful operation of our business and implementation of our growth strategies, including our ability to accommodate additional players in the future, depends upon the performance and reliability of the internet infrastructure and telecommunications networks in China.

The majority of our revenue is derived from purchase of virtual items in our games, which can be purchased through internet connection or through SMS in China. We rely on this infrastructure to provide data communications primarily through wireless telecommunication networks and local telecommunications lines. 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. They may not support the demand necessary for the continued growth in Internet usage. The PRC government plans to develop the national information infrastructure. However, we cannot assure you that this infrastructure will be developed as planned or at all. In addition, in the event of any infrastructure disruption or failure we would have no access to alternative networks and services on a timely basis, if at all, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

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

During the course of playing games, some virtual items, such as weapons and other premium features, are acquired and accumulated by our players. Such virtual items can be important to game players and have monetary value. In practice, virtual items 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. Currently, 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 items, whether and how the ownership of virtual items is protected by law, and whether an operator of mobile games such as us would have any liability to players or other interested parties (whether in contract, tort or otherwise) for the loss of virtual assets. In case of a loss of virtual items, we may be sued by our players and held liable for damages, which may materially and adversely affect our reputation and business, financial condition, results of operations and prospects. We have not been involved in any virtual items 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 items by players, the courts have generally required the game operators to return the virtual items or be liable for the loss and damage incurred therefrom.

RISK FACTORS

RISKS RELATING TO OUR CONTRACTUAL ARRANGEMENTS

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

We are a company incorporated in the Cayman Islands with limited liability and WFOE is considered as a foreign-invested enterprise. The PRC government restricts or forbids foreign investment in telecommunications and online cultural businesses. Please see the section headed “Regulatory Overview — Restrictions on Foreign Investment” for details. Due to these restrictions, our operations in China were carried out through the Consolidated Affiliated Entities. Although we do not have any equity interest in the Consolidated Affiliated Entities, we are able to exercise effective control over the Consolidated Affiliated Entities and receive substantially all of the economic benefits of its operations through the Contractual Arrangements with WFOE. Please see the section headed “Contractual Arrangements” for details.

Current PRC laws and regulations impose certain restrictions and prohibitions on foreign ownership of companies that engage in mobile game operating, Internet and other related businesses, such as the provision of Internet information. In particular, under the Special Administrative Measures (Negative List) for Foreign Investment Access (2019 Version) (《外商投資准入特別管理措施（負面清單）（2019年版）》), our game operations and distribution business fall into the value-added telecommunications services business which is considered “restricted” and the Internet cultural services business which is considered “prohibited”.

However, if the PRC government renders our Contractual Arrangements as a breach of its restrictions on foreign investment in business or adopts new laws and regulations in the future which may invalidate the Contractual Arrangements and determines that we are in violation of PRC laws or regulations or lack the necessary permits or licences to operate our business. As such, it may cause us to lose the rights to direct the activities of the Consolidated Affiliated Entities or our right to receive its economic benefits, and no longer be able to consolidate the financial results of the Consolidated Affiliated Entities into our consolidated financial statements in accordance with HKFRSs. Our business, financial conditions and results of business operations may be materially and adversely affected.

RISK FACTORS

We may lose the ability to use and enjoy assets held by our Consolidated Affiliated Entities that are important to the operation of our business if Guangzhou Jiu Zun or Family Doctor declares bankruptcy or becomes subject to a dissolution or liquidation proceeding.

Each of Guangzhou Jiu Zun and Family Doctor holds certain assets that are important to our business operations. Our Contractual Arrangements between Guangzhou Jiu Zun and its equity holders and WFOE contain terms that specifically obligate its equity holders to ensure the valid existence of Guangzhou Jiu Zun. However, where the equity holders of any of Guangzhou Jiu Zun and Family Doctor breach their obligation and voluntarily liquidate Guangzhou Jiu Zun, or any of Guangzhou Jiu Zun and Family Doctor declares bankruptcy, and all or part of its assets become subject to liens or rights of third-party creditors, or is otherwise dissolved, we may be unable to continue some or all of our business operations, which could materially and adversely affect our business, financial condition and results of operations. Furthermore, if any of Guangzhou Jiu Zun and Family Doctor undergoes a voluntary or involuntary liquidation proceeding, its shareholders or unrelated third-party creditors may claim rights to some or all of these assets, thereby hindering our ability to operate our business, which could materially and adversely affect our business, financial condition and results of operations.

Our Contractual Arrangements may not be as effective in providing operational control as direct ownership and our Consolidated Affiliated Entities may fail to perform their obligations under our Contractual Arrangements.

Since PRC laws limit foreign equity ownership in Internet and other related businesses in the PRC, we operate our mobile games business through our Consolidated Affiliated Entities. We have no equity ownership interests in our Consolidated Affiliated Entities and rely on the Contractual Arrangements to control and operate these businesses. A substantial portion of our revenue and cash flow are attributed to our Consolidated Affiliated Entities. The Contractual Arrangements may not be as effective as direct ownership in providing us with control over our Consolidated Affiliated 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 any of our Consolidated Affiliated 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 Consolidated Affiliated Entities or the Relevant Shareholders fail to perform its, his or her respective obligations under the 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. These remedies may include seeking specific performance or injunctive relief and claiming damages, any of which may not be effective. For example, if the Relevant Shareholders were to refuse to transfer their equity interest in Guangdong Jiu Zun to us or our designee when we exercise the call option pursuant to the Contractual Arrangements, or if they were otherwise to act in bad faith toward us, we might have to take legal action to compel them to perform their respective contractual obligations. Furthermore, uncertainties presented by the PRC legal system could impede our ability to exercise the option to acquire ownership and subject us to substantial costs.

RISK FACTORS

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

Our Consolidated Affiliated Entities hold certain assets that are critical to our business operations. The Contractual Arrangements contain terms that specifically obligate the Relevant Shareholders to ensure the valid existence of our Consolidated Affiliated Entities and that Guangzhou Jiu Zun may not be dissolved or liquidated without WFOE's written consent unless required by PRC law. However, should the Relevant Shareholders breach this obligation and voluntarily liquidate our Consolidated Affiliated Entities, or should any of our Consolidated Affiliated Entities declare bankruptcy, all or part of assets of our Consolidated Affiliated Entities may become subject to liens or rights of third-party creditors and we may be unable to continue some or all of our business operations, which could materially and adversely affect our business, financial condition, results of operations and prospects.

Our Contractual Arrangements and certain aspects of our Reorganization may be subject to scrutiny by the PRC tax authorities and additional taxes may be imposed. A finding that we owe additional taxes could substantially reduce our combined net income and the value of your investment.

According to applicable PRC laws and regulations, arrangements and transactions among related parties may be subject to challenge by the PRC tax authorities, and additional taxes and interest may be imposed. We would be subject to adverse tax consequences if the PRC tax authorities were to determine that transactions under the Contractual Arrangements were not conducted on an arm's-length basis as the PRC tax authorities have the authority to make special tax adjustments on the tax position of any of our Consolidated Affiliated Entities. Moreover, in accordance with the Implementation Measures of Special Tax Adjustments (Trial Version) Guoshuifa 2009 No. 2 (《特別納稅調整實施辦法》(試行) (國稅發2009 第2號)), additional corporate income tax payable under a special tax adjustment made by the PRC tax authorities on or after 1 January 2008 shall be subject to an interest levy calculated on a daily basis.

We will be subject to higher income tax rates and incur additional taxes as a result of the Contractual Arrangements, which may increase our tax expenses and decrease our net profit margin.

For FY2016, FY2017, FY2018 and 9M2019, our Consolidated Affiliated Entities retained all net profits generated by them except for the dividend declared in the amount of nil, RMB65.1 million, RMB46.5 million and nil, respectively, to our then shareholders, among which RMB9.5 million was unpaid as at the Latest Practicable Date. However, under the Contractual Arrangements, which we entered into on 23 February 2019, all of the net income of our Consolidated Affiliated Entities shall be paid to Guangzhou Jiu Zun in the form of service fees, subject to adjustments made by Guangzhou Jiu Zun at its sole discretion, which are subject to a sales tax in the PRC, at the tax rate of 6% for value-added tax, which may change in the future. Guangzhou Jiu Zun was subject to a 25% income tax rate throughout the

RISK FACTORS

Track Record Period which is expected to remain the same. As a result of the higher income tax rate applicable to Guangzhou Jiu Zun than the Contractual Entities in future periods, if any of our other Consolidated Affiliated Entities transfers a larger portion of its before-tax profits to Guangzhou Jiu Zun in any future period in the Track Record Period, such transfer may result in increased income tax expenses for our Group on a consolidated basis, which may materially and adversely affect our results of operations, particularly, our net profit and net profit margin.

If the Contractual Arrangements had been in effect during the Track Record Period, it is estimated that our net profit would at worst have decreased by approximately 9.7%, 9.3%, 14.8% and 2.5% for FY2016, FY2017, FY2018 and 9M2019, respectively. However, such impact is estimated without taking into consideration of potential tax preferential policies, potential tax deductions with respect to factors such as the operational costs and expenses primarily comprising employee benefits, rental expenses and other operating-related expenses that would be incurred by our Consolidated Affiliated Entities in the process of providing management consultancy and technical support services, as such mitigating factors cannot be estimated accurately at this moment. Therefore, we believe the actual impact on our financial results during the Track Record Period may not have been as significant as set out above.

Changes in the PRC preferential tax policies could lead to an increase in our tax liabilities

All subsidiaries of our Group established in the PRC are subject to PRC corporate income tax at a standard rate of 25% during the Track Record Period, except for certain subsidiaries of our Group which qualified as High and New Technology Enterprises in the PRC were entitled to a lower PRC corporate income tax rate of 15% and certain subsidiaries of our Group applied the Small-Scaled Minimal Profit Enterprise Income Tax Preferential Policy announced by the PRC's State Administration of Taxation, which could enjoy 50% taxable income deduction and pay the enterprise tax at the rate at 25% if the annual taxable income does not exceed RMB1.0 million or at the rate of 20% of the annual taxable income exceeds RMB1.0 million but less than RMB3.0 million. Please refer to the paragraph headed "Regulatory Overview – Tax Related Laws and Regulations – Enterprise Income Tax" for details. If our relevant subsidiary fails to continue obtaining the High and New Technology Enterprise certificate, or if the preferential tax policy is withdrawn, revoked by the relevant PRC authorities or become less favourable, such subsidiary would no longer be able to enjoy the preferential tax treatment, which could adversely affect our net profit and hence reduce our profitability.

Relevant Shareholders may potentially have a conflict of interest with us, and they may breach their contracts with us or cause such contracts to be amended in a manner contrary to our interests.

We conduct a substantial portion of our operations, and generate a substantial portion of our revenue, through our Consolidated Affiliated Entities. Our control over these entities is based upon the Contractual Arrangements that allow us to control our Consolidated Affiliated Entities. These shareholders may potentially have a conflict of interest with us, and

RISK FACTORS

they may breach their contracts with us, if they believe it would further their own interest or if they otherwise act in bad faith. We cannot assure you that when conflicts of interest arise between us and the Relevant Shareholders, the Relevant Shareholders will act completely in our interests or that the conflicts of interest will be resolved in our favor. In addition, the Relevant Shareholders may breach the Contractual Arrangements. If the Relevant Shareholders breach their contracts with us or otherwise have disputes with us, we may have to initiate legal proceedings, which involve significant uncertainty. Such disputes and proceedings may significantly disrupt our business operations, materially and adversely affect our ability to control our Consolidated Affiliated Entities and otherwise result in negative publicity. We cannot assure you that the outcome of any such dispute or proceeding will be in our favor.

We conduct our business operation in the PRC through our Consolidated Affiliated Entities by way of the Contractual Arrangements, but certain of the 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 the resolution of disputes through arbitration in the PRC. 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 the PRC is not as developed as in other jurisdictions and uncertainties in the PRC 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 our Consolidated Affiliated Entities, and our ability to conduct our business and our financial condition, results of operations and prospects 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 our Consolidated Affiliated Entities, injunctive relief and/or winding up of our Consolidated Affiliated 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 our Consolidated Affiliated 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 not allow the arbitral body to grant an award of transfer of assets of or equity interests in our Consolidated Affiliated Entities in favor of an aggrieved party. Please see the section headed “Contractual Arrangements — Legality of the Contractual Arrangements” for details of the enforceability of the Contractual Arrangements. Therefore, in the event of breach of any agreements constituting the Contractual Arrangements by our Consolidated Affiliated Entities and the Relevant Shareholders, and if we are unable to enforce the Contractual Arrangements, we may not be able to exert effective control over our Consolidated Affiliated Entities, which could materially and adversely affect our ability to conduct our business.

RISK FACTORS

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

On 15 March 2019, the National People’s Congress of the PRC promulgated the Foreign Investment Law which will replace a slew of PRC laws governing foreign investment in the PRC including the Law on Sino-Foreign Equity Joint Ventures, the Law on Sino-Foreign Contractual Joint Ventures and the Law on Foreign-Capital Enterprises.

We, like many other PRC-based companies, have adopted contractual arrangements under the “variable interest equity” structure to conduct our operations in order to obtain and maintain necessary licenses and permits in the industry that are currently subject to foreign investment restrictions or prohibitions in China. The Foreign Investment Law stipulates four forms of foreign investment but does not explicitly stipulate the contractual arrangements under the “variable interest equity” structure as a form of foreign investment.

Notwithstanding the above, the Foreign Investment Law stipulates that foreign investment includes “foreign investors invest in China through any other methods under laws, administrative regulations, or provisions prescribed by the State Council”. Therefore, it is possible that future laws, administrative regulations or provisions of the State Council may stipulate contractual arrangements as a form of foreign investment; then it will be uncertain as to whether our Contractual Arrangements will be recognized as foreign investment, whether our Contractual Arrangements will be deemed as a violation of the foreign investment access requirements or the treatment of our Contractual Arrangements.

In an extreme case, we may be required to unwind our Contractual Arrangements and/or dispose of our Consolidated Affiliated Entities, which could have a material and adverse effect on our current corporate structure, corporate governance, business, financial condition and result of operations. In the event that our Company no longer has a sustainable business after the aforementioned unwinding of our Contractual Arrangements or disposal or such measures are not complied with, the Stock Exchange may take enforcement actions against us which may have a material adverse effect on the Listing or even result in delisting of our Company. Please see the section headed “Contractual Arrangements — Development in the PRC Legislation on Foreign Investment” for details of the Foreign Investment Law and the “Negative List” and its potential impact on our Company.

As a result, there is no guarantee that our Contractual Arrangements and the business of our Consolidated Affiliated Entities will not be materially and adversely affected in the future.

RISK FACTORS

RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC

PRC economic, political and social conditions as well as government policies could adversely affect our business and prospects.

We conduct substantially all of our operations in the PRC. Accordingly, our business, prospects, financial condition and operating results are, to a significant degree, subject to the economic, political and legal developments of the PRC.

The PRC economy differs from other developed economies of the world in many respects, including:

- its political structure;
- the amount and degree of the PRC government involvement and control;
- growth rate and degree of development;
- level and control of capital investment and reinvestment;
- control of foreign exchange; and
- allocation of resources.

The PRC economy has been transitioning from a centrally planned economy to a more market-oriented economy. For approximately three decades, the PRC government has implemented economic reform measures to utilize market forces in the development of the PRC economy. We cannot predict whether changes in the PRC's economic, political, social and legal conditions and policies will have any adverse effect on our current or future business, financial condition or results of operations. In addition, many of the economic reforms carried out by the PRC government are unprecedented or experimental and are expected to be refined and improved over time. This refining and adjustment process may not necessarily have a positive effect on our operations and business development. For example, the PRC government has in the past periodically implemented a number of measures intended to slow down certain segments of the economy which the government believed to be overheating. These actions, as well as other actions and policies of the PRC government, could cause a decrease in the overall level of economic activity in the PRC and, in turn, have an adverse impact on our business and financial condition.

The national and regional economies in China and our prospects may be adversely affected by natural disasters, acts of God, and occurrence of epidemics.

Our business is subject to general economic and social conditions in China. Natural disasters, epidemics and other acts of God which are beyond our control may adversely affect the economy, infrastructure and livelihood of the people in China. In addition, past

RISK FACTORS

occurrences of epidemics, depending on their scale, have caused different degrees of damage to the national and local economies in China. A recurrence of contagious disease or an outbreak of any other epidemics in China, such as the avian flu or the human swine flu, especially in the cities where we have operations, may result in material disruptions to our game development business, which in turn may adversely affect our financial condition and results of operations.

Fluctuations in the value of the Renminbi and other currencies may have a material adverse impact on your investment.

During the Track Record Period, substantially all of our revenue and our expenditure were denominated in Renminbi, while the net proceeds from the Global Offering and any dividends we pay on our Shares will be in Hong Kong dollars. Fluctuation in the exchange rate between the Renminbi and the Hong Kong dollar or U.S. dollar will affect the relative purchasing power in Renminbi terms of the proceeds from the Global Offering. Fluctuations in the exchange rate may also cause us to incur foreign exchange losses and affect the relative value of any dividend issued by our PRC subsidiary, the WFOE, or any of our Consolidated Affiliated Entities. In addition, appreciation or depreciation in the value of the Renminbi relative to the Hong Kong dollar or U.S. dollar would affect our financial results in Hong Kong dollar or U.S. dollar terms without giving effect to any underlying change in our business or results of operations.

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

The PRC government's control of foreign currency conversion may limit our foreign exchange transactions, including dividend payments on our Shares.

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

RISK FACTORS

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

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

Any funds we transfer to our group companies in the PRC, either as a shareholder loan or as an increase in registered capital, are subject to approval by or registration with relevant governmental authorities in China. According to the relevant PRC regulations on foreign-invested enterprises in China, capital contributions to the companies in the PRC are subject to the approval of the MOFCOM or its local branches and registration with other governmental authorities in China. In addition, any foreign loan procured by companies in the PRC is required to be registered with the SAFE or its local branches, and companies in the PRC may not procure loans which exceed the difference between its registered capital and its total investment amount as approved by the MOFCOM or its local branches. Any medium or long term loan to be provided by us to our Consolidated Affiliated Entity must be approved by the NDRC and the SAFE or its local branches. We may not obtain these government approvals or complete such registrations on a timely basis, if at all, with respect to future capital contributions or foreign loans by us to our PRC subsidiary, the WFOE, or any of our Consolidated Affiliated Entities. If we fail to receive such approvals or complete such registration, our ability to use the proceeds of the Global Offering and to capitalize our PRC operations may be negatively affected, which could adversely affect the liquidity and our ability to fund and expand our business.

On 9 June 2016, SAFE promulgated the Notice of the State Administration of Foreign Exchange on Policies for Reforming and Regulating the Control over Foreign Exchange Settlement under the Capital Account (《國家外匯管理局關於改革和規範資本項目結匯管理政策的通知》), or SAFE Circular 16. SAFE Circular 16 regulates the conversion by a foreign-invested enterprise of foreign currency into Renminbi by restricting the usage of the converted Renminbi. SAFE Circular 16 provides that any Renminbi capital converted from registered capital in foreign currency of a foreign-invested enterprise may only be used for purposes within the business scope approved by PRC governmental authority and for capital expenditure permitted by laws and regulations. In addition, SAFE may strengthen its oversight of the flow and use of the Renminbi capital converted from registered capital in foreign currency of a foreign-invested enterprise from time to time.

RISK FACTORS

The use of such Renminbi capital may not be changed without SAFE approval, and such Renminbi capital may not in any case be used to repay Renminbi loans if the proceeds of such loans have not been utilized. We are required to mainly apply Renminbi funds converted from the net proceeds we expect to receive from the Global Offering within the business scope of our Group in the PRC. SAFE Circular 16 may significantly limit our ability to transfer the net proceeds from the Global Offering or any other offering of additional equity securities to our Group in the PRC. Furthermore, SAFE Circular 16 specifically requires that any converted Renminbi capital shall be used within the scope as required by any agreements binding on a foreign-invested enterprise. SAFE Circular 16 also restricts a foreign-invested enterprise from using Renminbi funds converted from its registered capital to provide loans to non-affiliated enterprises. Violations of SAFE Circular 16 could result in severe monetary or other penalties. SAFE Circular 16 may significantly limit our ability to convert, transfer and use the net proceeds from this offering and any offering of additional equity securities in China, which may adversely affect our business, financial condition and results of operations.

Uncertainties with respect to the PRC legal system could adversely affect us.

All of our business is conducted in China and is governed by PRC laws and regulations. Our PRC subsidiary and our Consolidated Affiliated Entities, are located in China and subject to PRC laws and regulations. The PRC legal system is a civil law system based on written statutes, and prior court decisions have little precedential value and can only be used as a reference. Additionally, PRC written statutes are often principle-oriented and require detailed interpretations by the enforcement bodies to further apply and enforce such laws. Since 1979, the PRC legislature has promulgated laws and regulations in relation to economic matters such as foreign investment, corporate organization and governance, commercial transactions, taxation and trade, with a view to developing a comprehensive system of commercial law, including laws relating to mobile game development and operation. However, due to the fact that these laws and regulations have not been fully developed, and because of the limited volume of published cases and the non-binding nature of prior court decisions, interpretation of PRC laws and regulations involves a degree, sometimes a significant degree, of uncertainty. Depending on the government agency or how or by who an application or case is presented to such agency, we may receive less favorable interpretation of laws and regulations than our competitors. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention. All these uncertainties may limit the legal protections available to foreign investors, including you.

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

The M&A Rules and other regulations and rules concerning mergers and acquisitions established procedures and requirements that could make merger and acquisition activities by foreign investors time consuming and complex. For example, the M&A Rules requires that MOFCOM be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise, if (i) any important industry is

RISK FACTORS

concerned, (ii) such transaction involves factors that have or may have impact on the national economic security, or (iii) such transaction will lead to a change in control of a domestic enterprise which holds a famous trademark or PRC time-honored brand. Moreover, the Anti-Monopoly Law (《反壟斷法》) promulgated by the SCNPC on 30 August 2007 and effective as of 1 August 2008 requires that transactions which are deemed concentrations and involve parties with specified turnover thresholds (i.e., during the previous fiscal year, (i) the total global turnover of all operators participating in the transaction exceeds RMB10 billion and at least two of these operators each had a turnover of more than RMB400 million within China, or (ii) the total turnover within China of all the operators participating in the concentration exceeded RMB2 billion, and at least two of these operators each had a turnover of more than RMB400 million within China) must be notified and cleared by MOFCOM before they can be completed. In addition, on 3 February 2011, the General Office of the State Council promulgated a Notice on Establishing the Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (《關於建立外國投資者併購境內企業安全審查制度的通知》), or Circular No. 6, which officially established a security review system for mergers and acquisitions of domestic enterprises by foreign investors. Under Circular No. 6, a security review is required for mergers and acquisitions by foreign investors having “national defense and security” concerns and mergers and acquisitions by which foreign investors may acquire the “de facto control” of domestic enterprises with “national security” concerns. In August 2011, MOFCOM promulgated the Rules on Implementation of Security Review System (《商務部實施外國投資者併購境內企業安全審查制度的規定》), or the MOFCOM Security Review Rules, to replace the Interim Provisions of the Ministry of Commerce on Matters Relating to the Implementation of the Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (《商務部實施外國投資者併購境內企業安全審查制度有關事項的暫行規定》) promulgated by MOFCOM effective from March 2011 and expired by the end of August 2011, for implementing Circular No. 6. The MOFCOM Security Review Rules, which became effective on 1 September 2011, explicitly provide that MOFCOM will look into the substance and actual impact of the transaction and further prohibit foreign investors from bypassing the security review requirement by structuring transactions through proxies, trusts, indirect investments, leases, loans, control through contractual arrangements or offshore transactions. In the future, we may grow our business by acquiring complementary businesses. Complying with the requirements of the above-mentioned regulations and other relevant rules to complete such transactions could be time consuming, and any required approval processes, including obtaining approval from the MOFCOM or its local counterparts, may delay or inhibit our ability to complete such transactions. It is unclear whether our business would be deemed to be in an industry that raises “national defense and security” or “national security” concerns. However, the MOFCOM or other government agencies may publish explanations in the future determining that our business is in an industry subject to the security review, in which case our future acquisitions in the PRC, including those by way of entering into contractual control arrangements with target entities, may be closely scrutinized or prohibited. Our ability to expand our business or maintain or expand our market share through future acquisitions would as such be materially and adversely affected.

RISK FACTORS

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

All of our executive Directors and executive officers reside within China, and substantially all of our assets and substantially all of the assets of those persons are located within China. Therefore, it may be difficult for investors to effect service of process upon us or those persons inside China or to enforce against us or them in China any judgments obtained from non-PRC courts.

China does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts of the Cayman Islands and many other countries and regions. Therefore, recognition and enforcement in China of judgments of a court in any of these non-PRC jurisdictions may be difficult.

RISKS RELATING TO THE GLOBAL OFFERING

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

Prior to the Global Offering, there was no public market for our Shares. The initial issue price range for our Shares will be the result of negotiations among us and the Joint Global Coordinators for themselves and on behalf of the Underwriters, and the Offer Price may differ significantly from the market price for our Shares following the Global Offering. We have applied for the listing of, and permission to deal in, our Shares on the Stock Exchange. A listing on the Stock Exchange, however, does not guarantee that an active trading market for our Shares will develop or, if it does, that it will sustain or that the market price of our Shares will not decline significantly following the Global Offering. Furthermore, the liquidity, the market price and trading volume of our Shares may be volatile, which may be subject to a number of factors, including but not limited to:

- actual or anticipated fluctuations in our results of operations;
- releases of new and popular games by us or our competitors;
- restrictive regulations or limitations imposed on our industry by relevant authorities;
- recruitments or losses of key personnel by us or our competitors;
- announcements of competitive developments, acquisitions or strategic alliances in our industry;
- changes in earnings estimates or recommendations by securities analysts;

RISK FACTORS

- actual or potential litigation or regulatory investigations; and
- general economic and market conditions or other developments affecting us and our industry.

In addition, stock markets and the shares of other China-based companies listed on the Stock Exchange have from time to time experienced significant price and volume fluctuations that are not related or disproportionate to the operating performance of such companies. These broad market fluctuations may also materially and adversely affect the market price of our Shares.

Future sales or a major divestment of Shares by any of our Controlling Shareholders could adversely affect the prevailing market price of our Shares.

The future sales of a significant number of our Shares in the public market after the Global Offering, or the possibility of such sales, by our Controlling Shareholders, could adversely affect the market price of our Shares and could materially impair our future ability to raise capital through offerings of our Shares. Although our Controlling Shareholders have agreed to a lock-up of their Shares, any major disposal of our Shares by any of our Controlling Shareholders upon expiration of the relevant lock-up periods (or the perception that these disposals may occur) may cause the prevailing market price of our Shares to fall which could negatively impact our ability to raise equity capital in the future.

The shareholding percentages of the existing Shareholders will be diluted following the conversion of Shares in full (but not part) on the Listing Date.

On 28 May 2018, our Company entered into the Pre-IPO investments, namely the subscription of the Pre-IPO Convertible Bonds by our Pre-IPO Investors in the aggregate principal amount of approximately HK\$19.0 million which are expected to be converted to Shares in full (subject however to the Pre-IPO Investors' early redemption right) on the Listing Date. The Pre-IPO Investors are expected to be allotted and issued in aggregate 6,990 Shares upon conversion of the Pre-IPO Convertible Bonds, representing approximately 6.53% of our enlarged issued share capital immediately before the completion of the Global Offering and Capitalization Issue (without taking into account any Share which may be issued upon exercise of the Over-allotment Option). The cost per Share will be approximately HK\$0.69 per Share and represents approximately a 58.2% discount to the mid-point of the Offer Price of HK\$1.65 per Share. The Pre-IPO Investors are entitled to an early redemption right, exercisable in the manner set out in the respective Pre-IPO Convertible Bonds Instrument. All of the proceeds of the Pre-IPO Convertible Bonds were received by our Company on 29 May 2018. As a result, the shareholding percentages of the existing Shareholders in the Company would be diluted when the Pre-IPO Convertible Bonds are converted to Shares in full on the Listing Date and could negatively affect the market price of the Shares.

RISK FACTORS

We may make a Downward Offer Price Adjustment, and thereby reduce the amount of estimated net proceeds that we will receive from the Global Offering.

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 Offer Share. It is therefore possible that the final Offer Price will be set at HK\$1.35 per Offer Share upon the making of a full Downward Offer Price Adjustment. In such a situation, the Global Offering will proceed and the Withdrawal Mechanism will not apply. If the final Offer Price is set at HK\$1.35, the estimated net proceeds that we will receive from the Global Offering will be reduced to HK\$100.2 million, assuming that the Over-allotment Option is not exercised and that such reduced proceeds will be used as described in “Future Plans and Use of Proceeds — Use of Proceeds.”

Termination of the Underwriting Agreements

Prospective investors should note that the Underwriters are entitled to terminate their obligations under the Underwriting Agreements by the Joint Global Coordinators (for themselves and on behalf of the Underwriters) by giving written notice to our Company upon occurrence of any of the events stated in the section headed “Underwriting – Underwriting Arrangements and Expenses – Hong Kong Public Offering – Grounds for termination” of this prospectus at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date. Such events include, without limitation, any act of God, war, riot, public disorder, civil commotion, fire, flood, tsunami, explosion, epidemic, pandemic and /or outbreak of infectious diseases including, inter alia, the coronavirus (including the COVID-19) and any other related or mutated forms of infectious diseases (or the escalation and/or intensification of any outbreak, epidemic and/or pandemic of the foregoing), act of terrorism, earthquake, strike or lock-out. Should the Joint Global Coordinators (for themselves and on behalf of the Underwriters) exercise its rights and terminate the Underwriting Agreements, the Global Offering will not proceed and will lapse.

RISK FACTORS

Certain statistics contained in this prospectus are derived from a third-party report which are not independently verified by us.

This prospectus, particularly the section headed “Industry Overview” of this prospectus, contains information and statistics, including but not limited to information and statistics relating to the mobile game markets in China and certain other countries and regions. Such information and statistics have been derived from a third-party report commissioned by us. The sources of such information are conventional 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 false or misleading in any material respect or that any fact has been omitted that would render such information false or misleading in any material respect. The information has not been independently verified by us, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Sole Sponsor, the Underwriters, any of our or their respective directors, officers or representatives or any other person involved in the Global Offering and no representation is given as to its accuracy of such facts and statistics, which may not be consistent with other information compiled within or outside the PRC and may not be complete or up-to-date. Due to possibly flawed or ineffective data collection methods or discrepancies between published information and market practice and other problems, the facts, forecasts and statistics in this prospectus relating to the mobile game markets in China and certain other countries and regions may be inaccurate. Furthermore, we cannot assure you that they are stated or compiled on the same basis or with the same degree of accuracy as may be the case elsewhere. Therefore, you should not unduly rely upon the facts, forecasts and statistics contained in this prospectus.

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 (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information to the public with regard to our Group. Our Directors collectively and individually accept full responsibility for the accuracy 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 there are no other matters the omission of which would make any statement herein or this prospectus misleading.

THE GLOBAL OFFERING AND THE PROSPECTUS

This prospectus is published solely in connection with the Global Offering, which forms part of the Global Offering. For applicants under the Global Offering, this prospectus and the Application Forms set out the terms and conditions of the Global Offering. Please see the section headed “How to Apply for Hong Kong Offer Shares” of this prospectus and the Application Forms for further details of the procedures for applying for the Hong Kong Offer Shares.

The Hong Kong Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms and on the terms and conditions set out herein and therein. No person has been authorized to give any information or make any representations other than those contained in this prospectus and the Application Forms and, if given or made, such information or representations must not be relied on as having been authorized by us, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our or their affiliates or any of their respective directors, officers, employees agents or advisers or any other person or party involved in the Global Offering. Neither the delivery of this prospectus nor any offering, sale or delivery made in connection with our Shares 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 in this prospectus is correct as of any subsequent time.

We have reserved the right to make a Downward Offer Price Adjustment to provide flexibility in pricing the Offer Shares. The ability to make a Downward Offer Price Adjustment does not affect 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.

STRUCTURE OF THE GLOBAL OFFERING AND UNDERWRITING

Please see the section headed “Structure and Conditions of the Global Offering” for further details of the structure of the Global Offering including its conditions and the arrangements relating to the Over-allotment Options.

The Listing is sponsored by the Sole Sponsor. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters pursuant to the Hong Kong Underwriting Agreement. The International Underwriting Agreement relating to the International Placing is expected to be entered into on the Price Determination Date, subject to agreement on the Offer Price between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and our Company. The Global Offering is managed by the Joint Global Coordinators. If, for any reason, the Offer Price is not agreed, the Global Offering will not proceed and will lapse. Please see the section headed “Underwriting” for further details of the Underwriters and the underwriting arrangements.

RESTRICTIONS ON OFFERING OF THE OFFER SHARES

Each person acquiring the Hong Kong Offer Shares under the Hong Kong Public Offering will be required to confirm, and is deemed by his acquisition of Offer Shares to have confirmed, that he is aware of the restrictions on offers of the Offer Shares described in this prospectus and that he is not acquiring, and has not been offered, any Offer Shares in circumstances that contravene any such restrictions.

No action has been taken to permit a public offering of the Hong Kong Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, without limitation to the following, 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 offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the securities laws of such jurisdiction pursuant to registration with or an authorization by the relevant securities regulatory authorities or an exemption therefrom. In particular, the Offer Shares have not been publicly offered and sold, and will not be offered or sold, directly or indirectly in the PRC or the United States.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

Our Company has applied to the Listing Committee for the granting of the listing of and permission to deal in the Shares in issue and to be issued pursuant to the Global Offering (including any additional Shares which may be issued pursuant to the exercise of the Over-allotment Option) and Shares which may be issued pursuant to the exercise of the options that may be granted under the Share Option Scheme.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

Save as disclosed in this prospectus, no part of our share capital 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 in the near future.

ELIGIBILITY FOR CCASS

If the Stock Exchange grants the listing of, and permission to deal in, our Shares on the Stock Exchange and we comply with the stock admission requirements of HKSCC, our Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or 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. You should seek the advice of your stockbroker or other professional advisor for details of those settlement arrangements as such arrangements will affect your rights and interests.

All necessary arrangements have been made to enable the Shares to be admitted into CCASS. All activities under CCASS are subject to the general rules of CCASS and CCASS operational procedures in effect from time to time.

HONG KONG SHARE REGISTER AND THE STAMP DUTY

All Shares issued by us pursuant to applications made in the Global Offering will be registered on our register of members to be maintained by our Hong Kong Share Registrar, Tricor Investor Services Limited, in Hong Kong. Our principal register of members will be maintained by our principal registrar in the Cayman Islands.

Dealings in the Shares registered on our register of members in Hong Kong will be subject to Hong Kong stamp duty.

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors in the Global Offering are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding, disposing of, dealing in or exercising any rights in relation to, the Shares. None of us, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our or their affiliates or any of their respective directors, officers, employees, agents or advisers or any other person or party involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription for, purchase, holding, disposition of, dealing in, or exercising any rights in relation to, the Shares.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in our Shares on the Stock Exchange are expected to commence on Tuesday, 17 March 2020. The stock code of the Shares is 1961. The Shares will be traded in board lot of 2,000 Shares each.

OVER-ALLOTMENT OPTION AND STABILIZATION

In connection with the Global Offering, Elstone Securities Limited, its affiliates or any person acting for them, as stabilizing manager, may effect transactions with a view to stabilizing or supporting the market price of our 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, its affiliates or any person acting for them, to conduct any such stabilizing action.

In connection with the Global Offering, our Company is expected to grant to the International Underwriters the Over-allotment Option, which is exercisable in full or in part by the Joint Global Coordinators (for themselves and on behalf of the International Underwriters) no later than 30 days from the last day for lodging applications under the Hong Kong Public Offering.

Further details with respect to stabilization and the Over-allotment Option are set out in the section headed “Structure and Conditions of the Global Offering — Stabilization action” and “Structure and Conditions of the Global Offering — International Placing — Over-allotment Option”.

LANGUAGE TRANSLATION

The English language version of this prospectus has been translated into the Chinese language and English and Chinese versions of this prospectus are being published separately. If there should be any inconsistency between the English and Chinese versions, the English version shall govern.

EXCHANGE RATE CONVERSION

Solely for convenience purposes, this prospectus includes translations of certain Renminbi amounts into Hong Kong dollars at a specified rate. You should not construe these translations as representations that the Renminbi amounts could actually be, or have been, converted into Hong Kong dollar amounts at the rate indicated or at all. Unless we indicate otherwise, the translations of Renminbi amounts into Hong Kong dollars have been made at the rate of RMB1.00 to HK\$1.16.

ROUNDING

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Accordingly, totals of rows or columns of numbers in tables may not be equal to the apparent total individual items. When information is presented in thousands or millions of units, amounts may have been rounded up or down.

WEBSITE

The contents of any website mentioned in this prospectus do not form a part of this prospectus.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES AND EXEMPTION FROM STRICT COMPLIANCE WITH THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE

In preparation for the Global Offering, we have sought the following waivers from strict compliance with the requirements under certain provisions of the Listing Rules and exemption from strict compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

MANAGEMENT PRESENCE

Pursuant to Rule 8.12 of the Listing Rules, we must have sufficient management presence in Hong Kong. This usually means that at least two of our executive Directors must be ordinarily resident in Hong Kong. Given that our principal business operations are located, managed and conducted in the PRC, and all of our executive Directors and senior management predominantly reside in the PRC, we do not, and in the foreseeable future, will not have sufficient management presence in Hong Kong for the purpose of satisfying the requirement under Rule 8.12 of the Listing Rules.

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from the strict compliance with the requirement under Rule 8.12 of the Listing Rules subject to the following conditions:

- (a) we have appointed and will continue to maintain two authorized representatives pursuant to Rule 3.05 of the Listing Rules, who will act as our principal channel of communication with the Stock Exchange and ensure that we will comply with the Listing Rules at all times. The two authorized representatives are Mr. Liang Junhua (our executive Director) and Mr. Tsui Wing Tak (our company secretary). Our authorized representatives will be (i) readily contactable by telephone, facsimile and email; (ii) available to meet with the Stock Exchange on reasonable notice as and when required; and (iii) able to contact our Directors promptly at all times as and when the Stock Exchange wishes to contact our Directors on any matters;
- (b) each of our Directors (including our non-executive Directors and our independent non-executive Directors) holds valid travel documents and will be available to travel to Hong Kong to meet with the Stock Exchange within a reasonable timeframe upon request. Each of them will be readily contactable by telephone, facsimile and email, and is authorized to communicate on our behalf with the Stock Exchange;
- (c) each of our authorized representatives (i) has provided his office phone number, mobile phone number, facsimile number and email address to the Stock Exchange; and (ii) will be able to contact our Directors and the other authorized representative promptly by telephone, facsimile and email at all times as and when the Stock Exchange wishes to contact our Directors on any matters. The mobile phone numbers, residential addresses, office phone numbers, facsimile numbers and e-mail addresses of all our Directors, authorized representatives have also been provided to the Stock Exchange;

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES AND EXEMPTION FROM STRICT COMPLIANCE WITH THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE

- (d) we have appointed Lego Corporate Finance Limited as our compliance advisor pursuant to Rule 3A.19 of the Listing Rules, who will have access to our authorized representatives, our Directors and other members of our senior management and will act as our additional channel of communication with the Stock Exchange for a period commencing on the Listing Date and ending on the date on which we distribute the annual report for the first full financial year after the Listing Date in accordance with Rule 13.46 of the Listing Rules. Our compliance advisor will have access to our authorized representatives, Directors and other officers to ensure that it is in a position to provide prompt responses to any queries or requests from the Stock Exchange;
- (e) to further enhance communication among the Stock Exchange, our authorized representatives and our Directors, we have implemented a policy whereby (i) each Director will have to provide his mobile phone number, residential address, facsimile number and email address to our authorized representatives; (ii) in the event that a Director expects to travel and be out of office, he will have to provide the phone number of the place of his accommodation or other means of communications to our authorized representatives; and (iii) all Directors will provide their mobile phone numbers, office phone numbers, facsimile numbers and email addresses to the Stock Exchange;
- (f) meetings between the Stock Exchange and our Directors could be arranged through our authorized representatives or our compliance advisor, or directly with our Directors within a reasonable timeframe; and
- (g) we will also appoint other professional advisors (including legal advisors and accountants) after the Listing to assist our Company in dealing with any queries or questions raised by the Stock Exchange and to ensure that there will be efficient communication with the Stock Exchange.

Our Company will inform the Stock Exchange promptly in respect of any change in our authorized representatives and/or compliance advisor.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

We have entered into the Contractual Arrangements which would constitute continuing connected transactions of our Company under Chapter 14A of the Listing Rules following the completion of the Global Offering. We have applied for, and the Stock Exchange has granted, a waiver from strict compliance with the requirements under Chapter 14A of the Listing Rules in relation to the non-exempt continuing connected transactions as contemplated under the Contractual Arrangements. Please see the sections headed “Contractual Arrangements” and “Connected Transactions” for further details of such non-exempt continuing connected transactions and the waiver.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES AND EXEMPTION FROM STRICT COMPLIANCE WITH THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE

WAIVER FROM STRICT COMPLIANCE WITH RULE 4.04(1) OF THE LISTING RULES

Pursuant to Rule 4.04(1) of the Listing Rules, in the case of a new applicant, the accountants' report must include the results of the issuer or, if the issuer is a holding company, the consolidated results of the issuer and its subsidiaries in respect of each of the three financial years immediately preceding the issue of the listing document or such shorter period as may be acceptable to the Stock Exchange.

The Stock Exchange's Guidance Letter (HKEX-GL25-11) sets out the basis and conditions for the waiver from strict compliance with Rule 4.04(1) of the Listing Rules.

Our Company's financial year end dates are on 31 December and the three financial years immediately preceding the issue of this prospectus are the three financial years ended 31 December 2019. However, the accountants' report has only covered the three financial years ended 31 December 2016, 2017 and 2018 and the nine months ended 30 September 2019, respectively, but did not cover the full financial year ended 31 December 2019 as required under Rule 4.04(1) of the Listing Rules as strict compliance with such requirements would be unduly burdensome and the exclusion of such information would not prejudice the interests of the investing public for the following reasons:

- (i) the inclusion of the audited financial results for the year ended 31 December 2019 in this prospectus would be unduly burdensome and the strict compliance with Rule 4.04(1) of the Listing Rules would inevitably delay the listing timetable of our Company;
- (ii) there would not be sufficient time for our Company and the reporting accountants of our Company to finalize the audited financial statements for the year ended 31 December 2019 for inclusion in this prospectus. If the financial information for the year ended 31 December 2019 is required to be audited, our Company and the reporting accountants would have to carry out substantial volume of work to prepare, update and finalize the accountants' report and this prospectus, and the relevant sections of this prospectus will need to be updated to cover such additional period. Our Directors consider that the benefits of such work to the prospective investors of our Company may not justify the additional work and expenses involved and the delay in the listing timetable, given that it is expected that there would be no significant change in the financial position of our Group since 1 October 2019, being the expiry of the period reported on by our Company's reporting accountants which is not otherwise disclosed in this prospectus;
- (iii) after performing sufficient due diligence on our Group and after conducting all due enquiries, our Directors and the Sole Sponsor confirmed that, save as to the listing expenses incurred or to be incurred after 30 September 2019, there has been no material adverse change in our Group's financial and trading positions or prospects

**WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES AND
EXEMPTION FROM STRICT COMPLIANCE WITH THE COMPANIES
(WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE**

from 1 October 2019 to 31 December 2019, and there has been no event since 1 October 2019 and up to the date of this prospectus which would adversely and materially affect the information shown in the accountants' report set out in Appendix I to this prospectus, the profit estimate for the year ended 31 December 2019 set out in Appendix IIB to this prospectus and other financial information set out in this prospectus;

- (iv) the financials for the three financial years ended 31 December 2016, 2017 and 2018 and the nine months ended 30 September 2019, respectively, together with the profit estimate for the year ended 31 December 2019 (which complies with Rules 11.17 to 11.19 of the Listing Rules) and the information regarding our Group's recent development subsequent to the Track Record Period and up to the Latest Practicable Date included in this prospectus include all information as may be reasonably necessary to enable the investors to make an informed assessment of the activities, assets and liabilities and financial position of our Group. Our Directors and the Sole Sponsor confirmed that all information necessary for the public to make an informed assessment of the activities, assets and liabilities, financial position, management and prospects of our Group has been included in this prospectus; and
- (v) our Directors have confirmed that our Company will comply with Rules 13.46(2) and 13.49(1) of the Listing Rules in respect of the requirements for publication of the annual results and annual report for the year ended 31 December 2019 by no later than 31 March 2020.

As such an application has been made to the Stock Exchange for a waiver from strict compliance with the requirement as set out in Rule 4.04(1) of the Listing Rules and the Stock Exchange has granted a waiver on the following conditions:

- (i) the particulars of the exemption are set out in this prospectus;
- (ii) this prospectus will be issued on or before 27 February 2020;
- (iii) our Company will be listed on the Main Board of the Stock Exchange on or before 31 March 2020 (i.e. within three months after the end of our Company's latest financial year immediately preceding the issue of this prospectus);
- (iv) our Company shall obtain a certificate of exemption from the SFC on strict compliance with the requirements of section 342(1) of, and paragraph 27 of Part I and paragraph 31 of Part II of the Third Schedule to, the Companies (Winding Up and Miscellaneous Provisions) Ordinance;

**WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES AND
EXEMPTION FROM STRICT COMPLIANCE WITH THE COMPANIES
(WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE**

- (v) a profit estimate for the year ended 31 December 2019 (which complies with Rules 11.17 to 11.19 of the Listing Rules) shall be included in this prospectus; and
- (vi) there shall be a statement from our Directors in this prospectus that save as to the listing expenses incurred or to be incurred after 30 September 2019, there is no material adverse change to our Group's financial and trading positions or prospect with specific reference to the trading results from 1 October 2019 to 31 December 2019.

Our Directors confirmed that:

- (i) up to the date of this prospectus, save as to the listing expenses incurred or to be incurred after 30 September 2019, there has been no material adverse change to the financial and trading positions or the prospects of our Group since 1 October 2019, being the end of the period reported on in the accountants' report, and, in particular, there has been no material adverse change to the financial and trading positions or the prospects of our Group during the period from 1 October 2019 to the date of this prospectus;
- (ii) there had been no event since 1 October 2019 which would materially affect the information shown in the accountants' report and the profit estimate of our Group for the year ended 31 December 2019 set out in Appendix IIB to this prospectus;
- (iii) all information necessary for the public to make an informed assessment of the activities, assets and liabilities, financial position, management and prospects of our Company has been included in this prospectus and, as such, the grant of the Listing Rules 4.04(1) waiver will not prejudice the interests of the investing public; and
- (iv) our Company will comply with Rules 13.46(2) and 13.49(1) of the Listing Rules in respect of the publication of annual results and annual report for the year ended 31 December 2019.

**EXEMPTION FROM STRICT COMPLIANCE WITH SECTION 342(1) IN RELATION TO
PARAGRAPH 27 OF PART I AND PARAGRAPH 31 OF PART II OF THE THIRD
SCHEDULE TO THE COMPANIES (WINDING UP AND MISCELLANEOUS
PROVISION) ORDINANCE**

Section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance requires all prospectuses to include the matters specified in Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance and sets out the reports specified in Part II of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES AND EXEMPTION FROM STRICT COMPLIANCE WITH THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE

Pursuant to paragraph 27 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, our Company is required to include in this prospectus a statement as to its gross trading income or its sales turnover (as may be appropriate) during each of the three financial years immediately preceding the issue of the Prospectus including an explanation of the method used for the computation of such income or turnover and a reasonable breakdown between the more important trading activities.

Pursuant to paragraph 31 of Part II of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, our Company is required to include in this prospectus a report by the auditors of our Company with respect to (a) profits and losses of our Company; and (b) assets and liabilities of our Company for each of the three financial years immediately preceding the issue of this prospectus.

Pursuant to section 342A of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the SFC may issue, subject to such conditions (if any) as the SFC thinks fit, a certificate of exemption from compliance with any or all the requirements under the Companies (Winding Up and Miscellaneous Provisions) Ordinance if, having regard to the circumstances, the SFC considers that the exemption will not prejudice the interests of the investing public and compliance with any or all of such requirements would be irrelevant or unduly burdensome, or is otherwise unnecessary or inappropriate.

Our Company's financial year end dates are on 31 December and the three financial years immediately preceding the issue of this prospectus are the three financial years ended 31 December 2019. However, the accountants' report has only covered the three financial years ended 31 December 2016, 2017 and 2018 and the nine months ended 30 September 2019, respectively, but did not cover the full financial year ended 31 December 2019 as required under paragraphs 27 of Part I and 31 of Part II of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance as strict compliance with such requirements would be unduly burdensome and the exclusion of such information would not prejudice the interests of the investing public for the following reasons:

- (i) the inclusion of the audited financial results for the year ended 31 December 2019 in this prospectus would be unduly burdensome and the strict compliance with paragraphs 27 of Part I and 31 of Part II of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance would inevitably delay the listing timetable of our Company;
- (ii) there would not be sufficient time for our Company and the reporting accountants of our Company to finalize the audited financial statements for the year ended 31 December 2019 for inclusion in this prospectus. If the financial information for the year ended 31 December 2019 is required to be audited, our Company and the reporting accountants would have to carry out substantial volume of work to prepare, update and finalize the accountants' report and this prospectus, and the

**WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES AND
EXEMPTION FROM STRICT COMPLIANCE WITH THE COMPANIES
(WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE**

relevant sections of this prospectus will need to be updated to cover such additional period. Our Directors consider that the benefits of such work to the prospective investors of our Company may not justify the additional work and expenses involved and the delay in the listing timetable, given that it is expected that there would be no significant change in the financial position of our Group since 1 October 2019, being the expiry of the period reported on by our Company's reporting accountants which is not otherwise disclosed in this prospectus;

- (iii) after performing sufficient due diligence on our Group and after conducting all due enquiries, our Directors and the Sole Sponsor confirmed that, save as to the listing expenses incurred or to be incurred after 30 September 2019, there has been no material adverse change in our Group's financial and trading positions or prospects from 1 October 2019 to 31 December 2019, and there has been no event since 1 October 2019 and up to the date of this prospectus which would adversely and materially affect the information shown in the accountants' report set out in Appendix I to this prospectus, the profit estimate for the year ended 31 December 2019 set out in Appendix IIB to this prospectus and other financial information set out in this prospectus;
- (iv) the financials for the three financial years ended 31 December 2016, 2017 and 2018 and the nine months ended 30 September 2019, respectively, together with the profit estimate for the year ended 31 December 2019 (which complies with Rules 11.17 to 11.19 of the Listing Rules) and the information regarding our Group's recent development subsequent to the Track Record Period and up to the Latest Practicable Date included in this prospectus include all information as may be reasonably necessary to enable the investors to make an informed assessment of the activities, assets and liabilities and financial position of our Group. Our Directors and the Sole Sponsor confirmed that all information necessary for the public to make an informed assessment of the activities, assets and liabilities, financial position, management and prospects of our Group has been included in this prospectus; and
- (v) our Directors have confirmed that our Company will comply with Rules 13.46(2) and 13.49(1) of the Listing Rules in respect of the requirements for publication of the annual results and annual report for the year ended 31 December 2019 by no later than 31 March 2020.

As such an application has been made to the SFC for a certificate of exemption from strict compliance with section 342(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in respect of the requirements under paragraphs 27 of Part I and 31 of Part II of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the SFC has granted a certificate of exemption on the following conditions:

**WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES AND
EXEMPTION FROM STRICT COMPLIANCE WITH THE COMPANIES
(WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE**

- (i) the particulars of the exemption are set out in this prospectus;
- (ii) this prospectus will be issued on or before 27 February 2020;
- (iii) our Company will be listed on the Main Board of the Stock Exchange on or before 31 March 2020 (i.e. within three months after the end of our Company's latest financial year immediately preceding the issue of this prospectus);

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

DIRECTORS

Name	Residential Address	Nationality
Executive Directors		
LU Jian (呂建)	Room 302 No.711 (The Second) Jinsui Road Tianhe District Guangzhou PRC	Chinese
LIANG Junhua (梁俊華)	Room 1D, Block 19, Bai Yi Yuan Baishida Garden No. 28 Taining Road Luohu District Shenzhen PRC	Chinese
Non-executive Directors		
SU Shaoping (蘇少萍)	Room 901, No.15, East Second Area South China University of Technology No. 381 Wushan Road Tianhe District Guangzhou PRC	Chinese
TSUI Wing Tak (徐穎德)	Flat D, 17/F Foong Shan Mansion Gao Shan Terrace Taikoo Shing Hong Kong	Chinese
Independent non-executive Directors		
ZHAO Junfeng (趙俊峰)	Room 1A, Unit 2 Block 8 of Tinglanluxie No. 8 Baishi Third Road Nanshan District Shenzhen PRC	Chinese

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Name	Residential Address	Nationality
ZHUANG Wensheng (莊文勝)	Room 1201, E2 Building of Shanshui Court No. 828 Guangzhou Avenue North Guangzhou PRC	Chinese
SONG Yi (宋屹)	Apartment 349, 3/F, Tower 7 Hong Kong Parkview 88 Tai Tam Reservoir Road Hong Kong	Chinese

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

PARTIES INVOLVED IN THE GLOBAL OFFERING

Sole Sponsor

Lego Corporate Finance Limited
Room 1601, 16/F China Building
29 Queen’s Road Central
Central
Hong Kong

*A licensed corporation to carry out type 6
(advising on corporate finance) regulated activity
under the SFO*

Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers

Elstone Securities Limited
Suite 1601-04, 16/F., West Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

*(A licensed corporation to carry out type 1
(dealing in securities) regulated activity under the
SFO)*

Lego Securities Limited
Room 301, 3/F, China Building
29 Queen’s Road Central
Central
Hong Kong

*(A licensed corporation to carry out type 1
(dealing in securities) regulated activity under the
SFO)*

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Guosen Securities (HK) Capital Company Limited

(from 27 February 2020 up to 29 February 2020)

42/F, Two International Finance Centre

8 Finance Street

Central

Hong Kong

(effective from 1 March 2020)

Suites 3207-3212, 32/F

One Pacific Place

88 Queensway

Hong Kong

(A licensed corporation to carry out type 1)

(dealing in securities) and 6 (advising on

corporate finance) regulated activities under the

SFO

**Joint Bookrunners and
Joint Lead Managers**

Alpha Financial Group Limited

Room A, 17th Floor,

Fortune House,

61 Connaught Road Central,

Hong Kong

(A licensed corporation to carry out type 1

(dealing in securities) and 6 (advising on

corporate finance) regulated activities under the

SFO)

BOCOM International Securities Limited

9th Floor, Man Yee Building,

68 Des Voeux Road,

Central

Hong Kong

(A licensed corporation to carry out type 1

(dealing in securities), 2 (dealing in futures

contracts), 4 (advising on securities) and 5

(advising on futures contracts) regulated

activities under the SFO)

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

China Tonghai Securities Limited

18/F-19/F China Building,
29 Queen's Road Central,
Hong Kong

(A licensed corporation to carry out type 1 (dealing in securities), 2 (dealing in futures contracts), 4 (advising on securities), 6 (advising on corporate finance) and 9 (asset management) regulated activities under the SFO)

CMBC Securities Company Limited

45/F, One Exchange Square,
8 Connaught Place,
Central
Hong Kong

(A licensed corporation to carry out type 1 (dealing in securities) and 4 (advising on securities) regulated activities under the SFO)

Essence International Securities (Hong Kong) Limited

39/F, One Exchange Square,
Central, Hong Kong

(A licensed corporation to carry out type 1 (dealing in securities) and 4 (advising on securities) regulated activities under the SFO)

Great Roc Capital Securities Limited

44/F, Convention Plaza Office Tower,
1 Harbour Road,
Wan Chai
Hong Kong

(A licensed corporation to carry out type 1 (dealing in securities) and 4 (advising on securities) regulated activities under the SFO)

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Joint Lead Managers

Lee Go Securities Limited

Unit 02, 12/F, West Exchange Tower,
322 Des Voeux Road Central,
Hong Kong

*(A licensed corporation to carry out type 1
(dealing in securities) regulated activity under the
SFO)*

Conrad Investment Services Limited

23/F, Tung Hip Commercial Building,
244-248 Des Voeux Road Central,
Sheung Wan, Hong Kong

*(A licensed corporation to carry out type 1
(dealing in securities), 2 (dealing in futures
contracts) and 4 (advising on securities)
regulated activities under the SFO)*

Legal advisers to our Company

As to Hong Kong law

Mayer Brown

16/F–19/F
Prince's Building
10 Chater Road
Central, Hong Kong

As to PRC law

China Commercial Law Firm

21/F–23/F
Hong Kong CTS Tower
No. 4011
Shennan Avenue
Shenzhen
PRC

As to Cayman Islands law

Conyers Dill & Pearman

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

**Legal adviser to the Sole Sponsor and
the Underwriters**

As to Hong Kong law

Deacons

Solicitors, Hong Kong

5th Floor, Alexandra House

18 Chater Road

Central, Hong Kong

As to PRC law

Beijing Dentons Law Offices, LLP (Shenzhen)

3/F–4/F, Block A

Shenzhen International Innovation Center

No. 1006, Shennan Boulevard

Futian District

Shenzhen

China

Auditors and reporting accountants

Ernst & Young

Certified Public Accountants

22/F, CITIC Tower

1 Tim Mei Avenue

Central

Hong Kong

Industry consultant

Frost & Sullivan (Beijing) Inc.

Shanghai Branch Co

1018, Tower B

500 Yunjin Road

Shanghai

China

Receiving bank

Industrial and Commercial Bank of

China (Asia) Limited

33/F, ICBC Tower

3 Garden Road

Central

Hong Kong

CORPORATE INFORMATION

Registered office	Cricket Square Hutchins Drive, PO Box 2681 Grand Cayman, KY1-1111 Cayman Islands
Head office and principal place of business in the PRC	Suite 1801 R&F To-win Building 30 Huaxia Road Zhujiang New Town Tianhe District Guangzhou PRC
Principal place of business in Hong Kong	6/F, Tower 1 Admiralty Centre 18 Harcourt Road Admiralty Hong Kong
Company secretary	TSUI Wing Tak (徐穎德) <i>(Certified Public Accountant)</i> Flat D, 17/F Foong Shan Mansion Gao Shan Terrace Taikoo Shing Hong Kong
Authorized representatives	LIANG Junhua (梁俊華) Room 1D, Block 19, Bai Yi Yuan Baishida Garden No. 28 Taining Road Luohu District Shenzhen PRC TSUI Wing Tak (徐穎德) Flat D, 17/F Foong Shan Mansion Gao Shan Terrace Taikoo Shing Hong Kong

CORPORATE INFORMATION

Compliance adviser	Lego Corporate Finance Limited Room 1601, 16/F China Building 29 Queen's Road Central Central Hong Kong
Audit committee	ZHAO Junfeng (趙俊峰) (<i>Chairman</i>) ZHUANG Wensheng (莊文勝) SONG Yi (宋屹)
Remuneration committee	ZHUANG Wensheng (莊文勝) (<i>Chairman</i>) ZHAO Junfeng (趙俊峰) SONG Yi (宋屹)
Nomination committee	LU Jian (呂建) (<i>Chairman</i>) ZHAO Junfeng (趙俊峰) ZHUANG Wensheng (莊文勝)
Principal share registrar and transfer office	Conyers Trust Company (Cayman) Limited Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Hong Kong branch share registrar and transfer office	Tricor Investor Services Limited Level 54, Hopewell Centre 183 Queen's Road East Hong Kong
Principal bank	China Merchants Bank (Guangzhou Huangpu Avenue Branch) 5/F, Unicom New Space Time Plaza No. 666 West Huangpu Road Guangzhou PRC
Company's website	<u>www.jiuzundigital.com</u> <i>(The information contained on the website of our Company does not form part of this prospectus)</i>

INDUSTRY OVERVIEW

The information and statistics in this section, unless otherwise indicated, are derived from various private and official governmental publications, publicly available sources and the Frost & Sullivan Report, a market research report prepared by Frost & Sullivan and commissioned by our Group. We believe that the sources of the information in this 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 false or misleading or that any fact has been omitted that would render such information false or misleading. The information prepared by Frost & Sullivan and set out in this section has not been independently verified by us, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters or any other party involved in the Share Offer and they do not give any representations as to its accuracy or correctness and accordingly it should not be relied upon in making, or refraining from making, any investment decision.

SOURCE AND RELIABILITY OF INFORMATION

Our Group commissioned Frost & Sullivan, an independent market research company, to conduct an analysis of, and to produce a report on, the mobile games and e-magazines market in China for use in this prospectus. Frost & Sullivan is an independent global consulting firm founded in 1961, and offers industry research, market strategies and provides growth consulting and corporate training on a variety of industries. The information from Frost & Sullivan disclosed in this prospectus is extracted from the Frost & Sullivan Report, a report commissioned by us for a fee of RMB576,000 and is disclosed with the consent of Frost & Sullivan.

The Frost & Sullivan Report was undertaken through both primary and secondary research obtained from various sources. Primary research included interviews with industry experts and participants in China's mobile games and e-magazines market. Secondary research involved reviewing the statistics published by the government official statistics, industry publications, annual reports and data based on Frost & Sullivan's own database. Frost & Sullivan also adopted the following primary assumptions while making projections on the macroeconomic environment, the overall mobile games and e-magazines market and various market segments in China:

- China's economy is expected to grow at a steady rate supported by favorable government policies as well as global economic recovery, among other factors; and
- The social, economic and political environment of China is likely to remain stable during the forecast period, which will ensure a sustainable and steady development of the mobile games and e-magazines market in China.

Except as otherwise noted, all of the data and forecasts contained in this section are derived from the Frost & Sullivan Report. Our Directors confirm that after taking reasonable care, the sources of information used in this section, which are extracted from the Frost & Sullivan Report, are reliable and not misleading as Frost & Sullivan is an independent

INDUSTRY OVERVIEW

professional market research agency with extensive experience, and there is no material adverse change in the overall market information since the date of the Frost & Sullivan Report that would materially qualify, contradict or have an impact on such information.

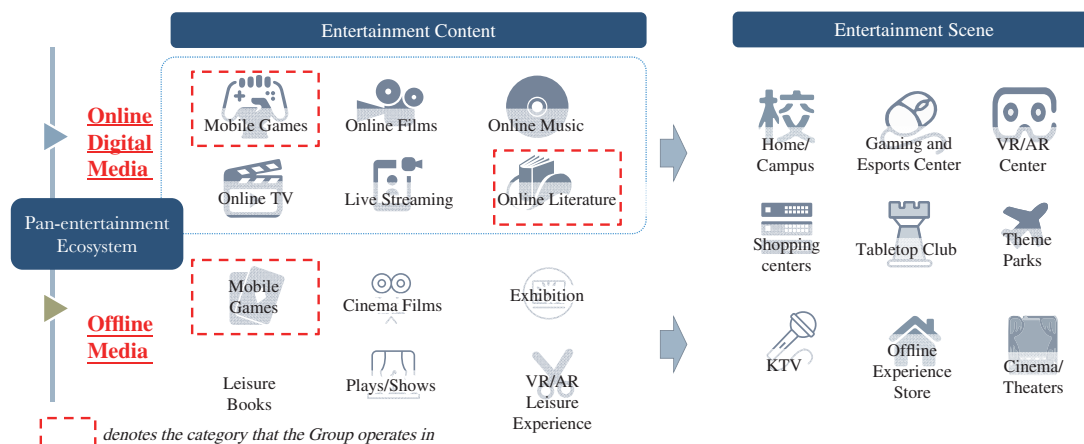
OVERVIEW OF PAN ENTERTAINMENT DIGITAL MEDIA INDUSTRY IN THE PRC

Definition

Digital media is defined as any media that are encoded in machine readable format. It can be viewed, created, distributed, and preserved on digital electronic devices.

Distribution channels

The content of pan-entertainment could be distributed through, and consumed by the general customers/audience/players through online and offline channels. Online channels include but not limited to (1) mobile games; (2) online films; (3) online music; (4) live streaming; and (5) online literature. While offline channels include but are not limited to (1) mobile games; (2) cinema films; (3) exhibition; (4) VR/AR experience; and (5) plays/shows.



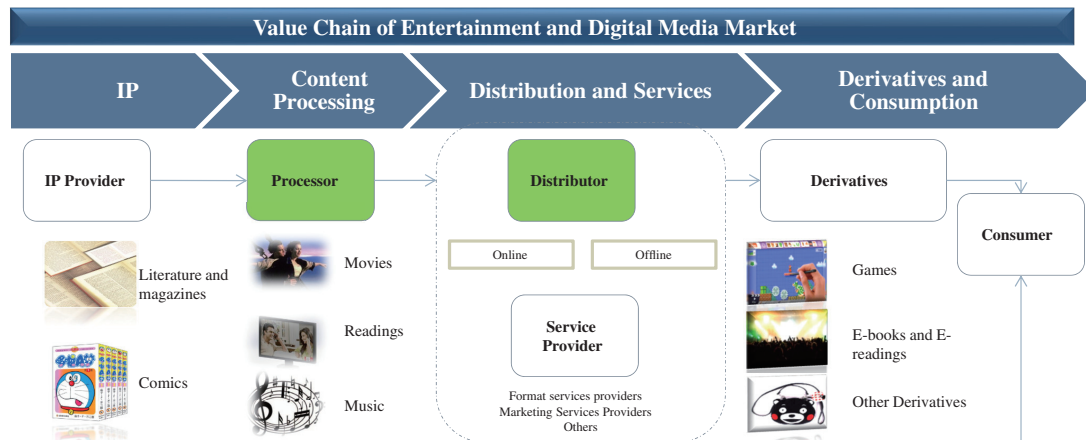
Source: Frost & Sullivan

Value Chain

The value chain of the digital media market generally flows from IP (intellectual property) providers to individual consumers. IP producers such as literature and magazine writers or comic drawers licensing the commercial application of their works to entertainment content processors. These processors, such as film studios, then produce entertainment contents in the form of movies, TV series, web series or music. They then cooperate with distributors to publish their products either through online (such as online E-magazine platform) or offline (such as Theaters) channels towards consumers. Such processors involved at this stage may also offer professional services regarding celebrity management, marketing

INDUSTRY OVERVIEW

and other services. Apart from directly consuming entertainment contents distributed via distributors, consumers may also spend money on entertainment derivative products related to the IP of games, and films etc.



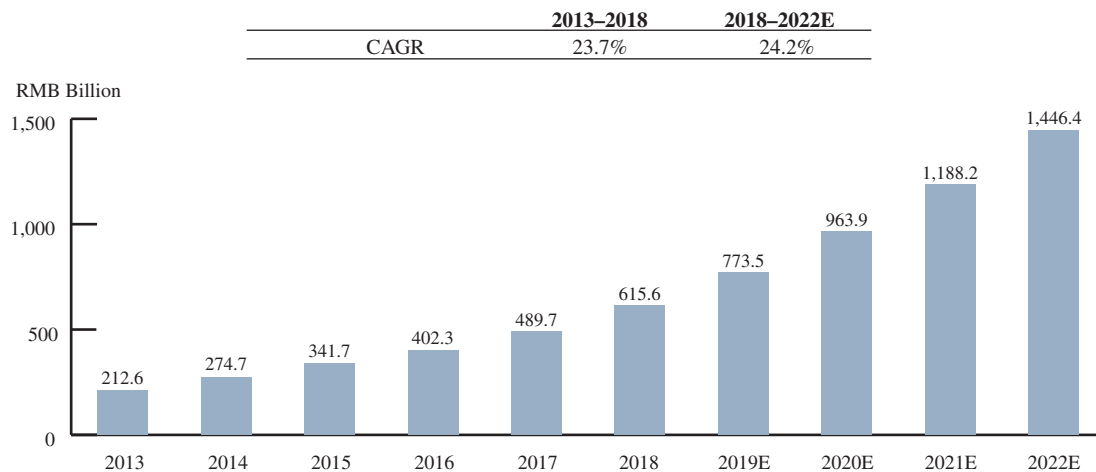
Source: Frost & Sullivan

Market Size of Online Digital Entertainment Media

Attributable to the increasing penetration rate of mobile internet, the market size of online digital entertainment media has grown from RMB212.6 billion in 2013 to RMB615.6 billion in 2018, representing a CAGR of 23.7%.

Supported by the emergence of new online digital entertainment segments such as live-streaming, the market size is expected to continue rising at a CAGR of 24.2%, reaching RMB 1,446.4 billion in 2022.

Market Size of Online Digital Entertainment Media (China), 2013–2022E



INDUSTRY OVERVIEW

Source: Frost & Sullivan

Market Drivers

- ***Technology upgrade***

With the development of technology, digital entertainment ecosystem has constantly enlarged its scope. For example, faster internet speed and bigger data package brought by the upgrade of telecommunication technology have endorsed live streaming market the basic development environment. Therefore, live streaming market has developed by leaps and bounds and become a key segment in digital entertainment market.

- ***Integration of digital media***

Integration among different segments has strongly promoted the development of the IP-based digital entertainment market in the PRC. For example, film adaptations have been very popular in recent years. Many films were adapted from online novels, which have already accumulated a large customer base. Adaptation can both help film makers to monetize the original customer base of the novels and novel IP owners to further promote their novels.

Competitive Landscape

The digital media industry in PRC is considered to be very fragmented with thousands of players within the industry. It is common for digital media providers to focus their business on one specific sub-segment within the industry such as gaming, literature or movie. In order to stand out from peers, it is expected that the industry participants to excel on various aspects, including (1) developing digital media content with high quality and suits the tastes of target audiences; (2) utilizing the appropriate distribution channels to maximize the reach of audiences, and (3) establishing decent business relationships with participants within the value chain such as IP owners and distributors.

OVERVIEW OF MOBILE GAMING INDUSTRY IN THE PRC

Definition

According to the China Audio-video and Digital Publishing Association, gaming scene in the PRC is generally divided into four categories, namely client-server games, mobile games, online PC games and console games.

Mobile games refer to game software on handheld mobile terminals. It can be further divided into two major segments, namely single-player mobile games and multi-player mobile games.

INDUSTRY OVERVIEW

Mobile games in the PRC can be further divided into three categories, namely, casual games, boutique games and hardcore games. The games are categorized by the complexity of the games (e.g. graphic quality, cost to purchase, storyline of the game). Casual game is usually free to download and play, and lacks a storyline for simple gameplay experience. Boutique games are designed for mobile players who demand some sophistication from the games, and receive basic features of the game. However, players will usually be required to make in-game purchase for further progression of the game. Hardcore games are designed with good quality graphics but also providing continuity in order to retain players but to also make in-game purchase to improve gameplay experience and progression.

	Casual Games	Boutique Games	Hardcore Games
Characteristics of Games	Usually single player gameplay	Developed for gamers that demand some sophistication in gameplay	Development inspired by concepts from console games and online games
	High penetration to smartphone users	Innovative gameplay mechanics	Strong ability to encourage in-game purchase
	Focus in gameplay mechanics where players can make in-game purchase for progression	Highly encourage players in-game purchase for progression	Many loyal followers for the game
	Low development cost	Strong awareness in development cost and profit	Strong game lifespan

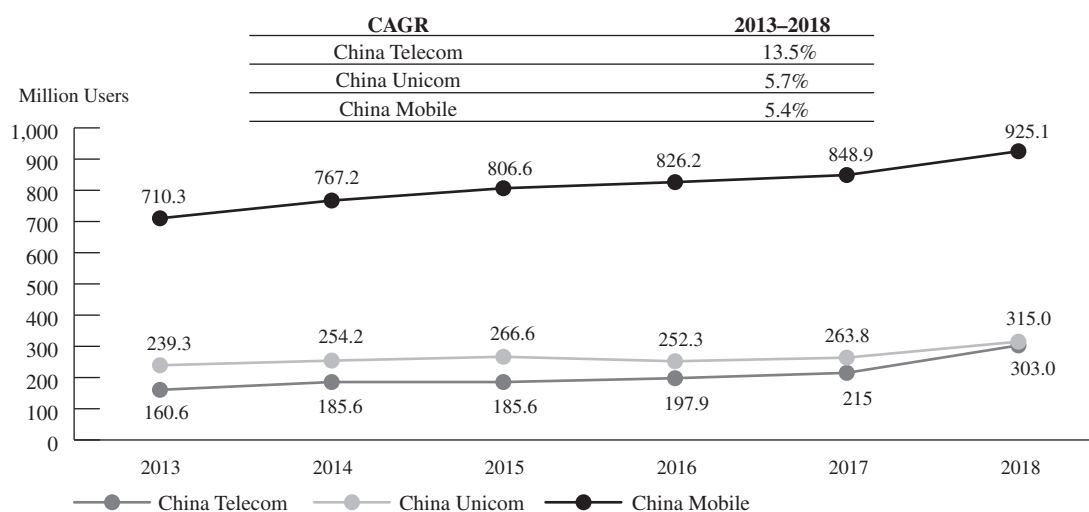
denotes the category that the Group operates in

Users on mobile platform

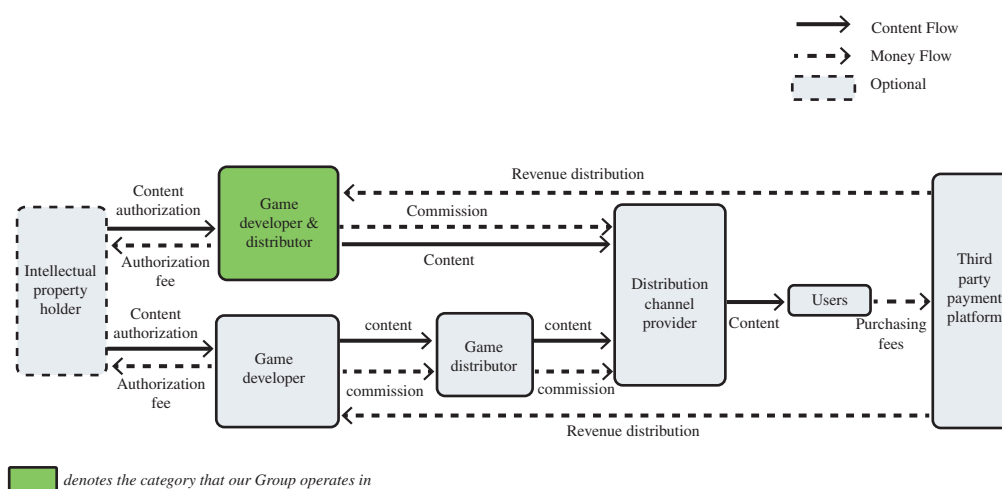
The number of mobile phone users subscribed at the three major telecom operators had recorded growth overall from 2013 to 2018. China Telecom recorded growth from 160.6 million users in 2013 to 303.0 million users in 2018, representing a CAGR of 13.5%; China Unicom recorded slight increase from 239.3 million users in 2013 to 315.0 million users in 2018, representing a CAGR of 5.7%; China Mobile Internet recorded growth from 710.3 million users in 2013 to 925.1 million users in 2018, representing a CAGR of 5.4%. The heavy traffic of China Mobile Internet therefore exposes the Group's game to an extensive customer base.

INDUSTRY OVERVIEW

Number of Mobile Phone Users per Telecom Operator (China), 2013–2018



Value Chain



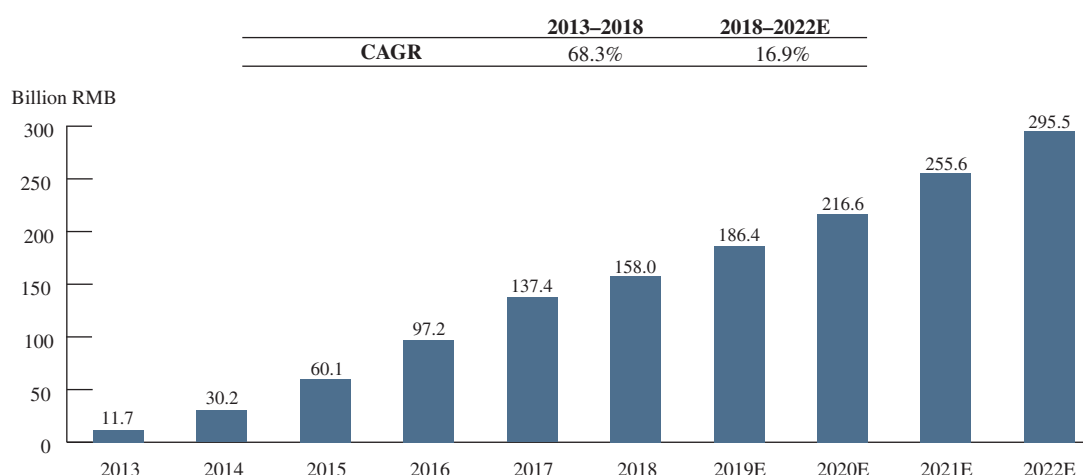
Source: Frost & Sullivan

Market Size

The market size of the mobile game market in China experienced strong growth and soared from RMB11.7 billion in 2013 to RMB158.0 billion in 2018, representing a CAGR of 68.3%. The increasing number of smartphone users in China and the ease of access that mobile games increase the number of users downloading mobile games while gamers are spending within each game to pay for tools and rewards for better game play experience. With the increasing popularity of consumers enjoying casual mobile games during fragmented time, the market is predicted to further grow, reaching RMB295.5 billion in 2022 at a CAGR of 16.9%.

INDUSTRY OVERVIEW

Market Size of Mobile Games Market (China), 2013–2022E



Source: Frost & Sullivan

Market Drivers

- ***Cheaper and easier access to mobile internet***

Driven by the advancement in technology together with the support from the government, the internet infrastructure in the PRC has been upgrading and improving rapidly over the previous years, making the mobile internet an inevitable tool in one's daily life. In order to coordinate with the trend, mobile carriers are developing and introducing faster and more stable 5G internet. The lower speed carrier plans, therefore are generally cheaper and more accessible to the public. A rise in mobile internet user implies a larger potential pool of gamers, translating into market drivers to the mobile gaming industry.

- ***Government support and favorable policies***

To meet the increasing demand for mobile internet usage, and the advancement in technology, the Government has imposed a series of policies and regulations to encourage technology firms to continue their innovation and its prosperous growth. The State Council has also announced its plan to support the gaming industry by standardizing the approval process of gaming license, as well as the development of internet cafes, arcades, and many more. On the other hand, the Ministry of Culture issued proposals in encouraging mobile technology advancements; setting up gaming entertainment centers, supporting gaming tournaments and encouraging investments in such sectors.

- ***Utilization of social media to connect gamers***

Many mobile game developers have enabled the linkage of social networking application to games, allowing gamers to interact with friends. There is also growing trend where gamers share their gaming progress and success on social media channels. Such actions will increase

INDUSTRY OVERVIEW

users' satisfaction, hence boosting user stickiness and expanding user-base. Popular social channels have become effective marketing tools in gaining user awareness, game distribution and the adoption of mobile games.

Market Trends

- *More active merger and acquisition activities*

In general, more stringent regulations are likely to post more compliance burdens on smaller gaming companies as they tend to have less dedicated resources for handling compliance matters. Coupled with less financial resources and lower game quality, smaller market players are expected to face increasing pressure, yielding potential merger and acquisition opportunities for leading market players. On the other hand, it is also common for industry players to conduct merger and acquisition activities targeting other industry participants along the value chain, so as to expand one's business coverage. According to Frost & Sullivan, using the first disclosure date as an indicator, there are more than 100 mergers and acquisitions activities in the gaming industry for the past five years.

- *Integration of content providers and developers*

The concept of IP adaptation into games has risen since 2014. The owners of IP resources, such as providers of game themes and content, begin to engage with game developers across industries in order to achieve high profit from highly popular IP through game adaptation. For game developers, IP can attract new users and lower operating costs in the early stage of games operations. Due to the successful combination of leading mobile games and IPs, mobile games market is likely to embrace an increasing number of IP games as driven by such integration, which would further promote the development of the PRC mobile games market.

Market Opportunities

- *Increased convenience in online mobile payment*

With the advancement in mobile technology and the country's general technological infrastructure, online mobile payments are increasingly convenient hence popular. Since the major income channel of mobile games is from mobile payment portals, the increasing ease in paying may encourage gamers to spend money on the app, hence boosting the overall sales.

- *Increasing number of female players*

Nowadays, mobile gaming is becoming more popular amongst female, given that the proportion of female players over male players saw steady growth over the past years. According to CNNIC, female players accounted for about 49% of the total mobile gamers in the PRC, showing that mobile gaming is no longer dominated by male users. This has created

INDUSTRY OVERVIEW

huge opportunities and potentials for mobile game developers to come up with designs and genre of the games that are targeted at female players.

Market Threats

- *Regulatory environment*

The two major regulatory bodies in charge of online game publishing and operation in China are the MOC and SAPPRFT. In 2016, the MOC released the “Notice on Regulating Online Game Operation and Strengthening Concurrent and Ex-Post Supervision”, further strengthening the supervision on mobile games development. Later in April 2018, driven by the restructuring of regulators, the China mobile game market has also endured a temporary game licensing, leading to a slowdown in the overall gaming market. Smaller scaled developers may therefore be eliminated from the market when there is a change in the regulatory environment.

- *Lifespan and continuity of games*

With the overwhelming amount of new entrants to the mobile games market, there is an increasing amount of game choices for gamers. Therefore, it is harder for game developers to innovate and create new games that would engage users and promote stickiness to the game. It is hard to bring continuity to the game, elongating the lifespan of the mobile games. According to Frost & Sullivan, the current lifespan of a mobile games is around six to 12 months.

COMPETITIVE LANDSCAPE OF MOBILE GAMING INDUSTRY IN THE PRC

Competition in the PRC mobile games market has become fiercer in recent years. Despite the industry had a late start compared to the global mobile games market, the opportunities from the mobile games market in the PRC had encouraged more market entrants to develop mobile games domestically. The number of game developers in China surged during the past few years and it is estimated that there are more than 10,000 mobile game developers in China as of the end of 2018. Among which, more than 2,000 are considered as single-player mobile games developers. In order to mitigate operation risk, it is also not uncommon and is an industry norm for mobile game developers to own multiple subsidiaries through direct ownership or trust arrangement.

Despite the growth of multi-player mobile games due to the improvement of network infrastructure, allowing more mobile users to connect to the internet to play with other players, the demand for good quality and premiumized games from the single-player mobile games market continues to grow. Single-player mobile games generally allow players to play the games without the need of constant internet connectivity.

Since the overall mobile games market in the PRC is only at an early development, the market may possibly change rapidly in the near future, such as breakthrough in gameplay

INDUSTRY OVERVIEW

technology, inventive business model, change in consumers' preferences and expectation for games and new governmental policy that will challenge market players to adapt and to gain advantage in the market. With the similar market know-how and resources required, it is a common operation strategy for mobile games developers to expand their business segments into the multi-player mobile game market from solely single-player mobile game market.

The Group has recorded a revenue derived from development and operation of mobile games of RMB0.1 billion in 2018, accounting for 0.1% of the 2018 mobile games market in the PRC.

Ranking of Mobile Games Developers and Operators (PRC), 2018			
Ranking	Company	Estimated Revenue (RMB bil.)	Market Share
1	Company A <i>(Note)</i>	77.8	49.2%
2	Company B <i>(Note)</i>	28.0	17.7%
3	Company C <i>(Note)</i>	5.6	3.5%
–	The Group <i>(Note)</i>	0.1	0.1%

Source: Frost & Sullivan

Note:

Company A is an internet-based technology and cultural enterprise founded in 1998 with its headquarter in Shenzhen, China. The company was listed on the Stock Exchange and has offered gaming services since 2004.

Company B is a Chinese Internet technology company listed on NASDAQ and was founded in 1997 with its headquarter in Guangzhou, China.

Company C was founded in 2011 and it is a mobile game developer and operator listed on Shenzhen Stock Exchange with its headquarter based in Guangzhou, China.

Success Factors

- ***Ability to convert traffic into sales***

Successful games are usually those that are able to convert traffic from gamers to pay for premium products within the game continuously. This usually requires the game itself to be appealing and attractive so that it can engage users and increase gamers' stickiness. Game developers that make use of big data to analyze user patterns in order to develop high-quality games that suit the gamers' needs. Successful game developers will therefore have a high conversion rate from traffic to actual spending on the game.

- ***Strong research and development ability***

As there are more and more new entrants to the gaming market, higher quality games will gain more attention in the market. However this relies heavily on the ability of the company's research and development in gamers' particular behavior and preferences, as companies with stronger capabilities have a higher chance of developing sophisticated games that will earn a higher competitive ground against the other games in the market.

Entry Barriers

- *Content licenses*

Games that incorporated characters bought from IP licensors are generally more popular among gamers as consumers are often attracted towards these well-known characters and story backgrounds. Content licensing acts as an entry barrier to new market entrants as these licenses are generally very costly and are often exclusively authorized to one single mobile game developer.

- *Game quality*

Online games are strictly supervised by the SAPPRFT and the MIIT. Corporates that want to operate in this industry are required to maintain a certain capital and obtain permits and license from the Government such as the Network Culture Business Permit. It is also an industry norm for telecom operators and settlement agents to penalize the games developers/operators with different penalties according to the number and severity of complaints. Such measures act as entry barriers to the industry.

OVERVIEW OF E-MAGAZINES MARKET IN THE PRC

Definition

E-magazine is generally perceived as a digital version of printed magazine, which contains news articles, advertisements, photography and public statements. Instead, e-magazine provides more intuitive information than traditional printed magazine as it also embeds audios, videos, hyperlinks to internet and motion pictures in their content pages.

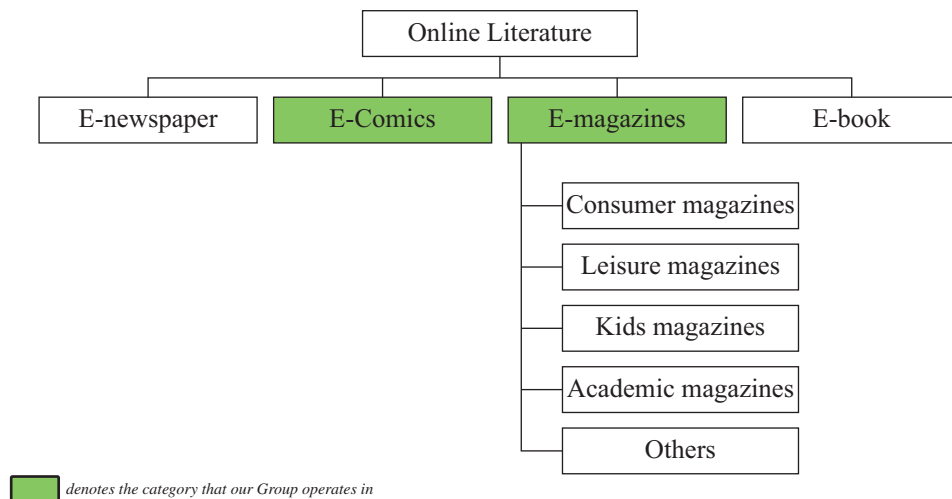
In general, e-magazines are distributed through a service platform, including mobile applications on Apple IOS and Mac OS, Google Android system, Windows mobile system and readers can enjoy the e-magazines through their mobile phones, tablets and computers.

Classification

- **Consumer magazines:** Magazines that cover a wide range of contents, such as information in the showbiz industry, weekly news and the target audience ranges broadly, from youngsters to retired ones and housewives to professional bodies.
- **Leisure magazines:** Magazines that mostly cover readers' hobbies, including PC/mobile gaming, fashion designs, cars, photography, audio equipment, medical, air traffic and sports, etc. Latest market products and technology released are often promoted in the content part.

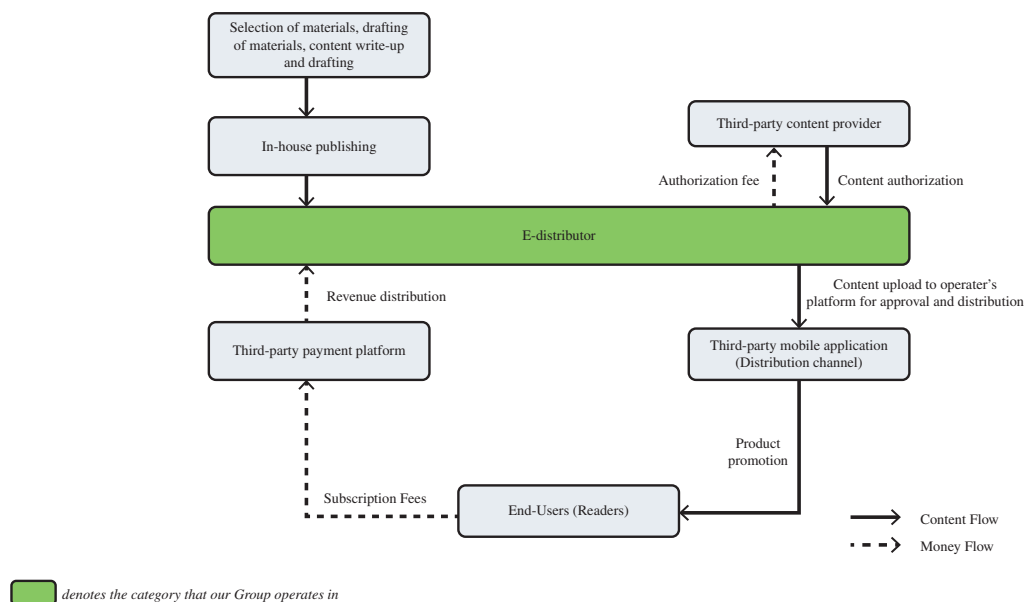
INDUSTRY OVERVIEW

- **Kids magazines:** Animated pictures are the one of the major focus of kids magazines as they typically publish children-friendly content, such as different story series in their products. Sometimes, certain scientific topics may also be covered to arouse kids' interests in scientific areas.
- **Academic magazines:** Specific topics, for example astronomy, IT technology, literature reviews and medical discoveries, are introduced in academic magazines and professional entities are usually their potential customers.
- **Others:** Other magazines that are not aforementioned



Source: Frost & Sullivan

Value Chain



INDUSTRY OVERVIEW

Source: Frost & Sullivan

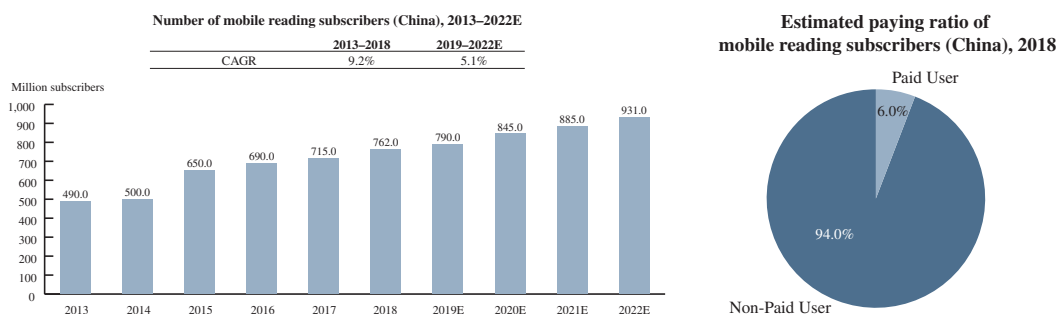
Market Size

Driven by the increasing number of internet and smartphone users in the PRC, the market size of e-magazines has increased at a CAGR of 8.6% between 2013 and 2018, from RMB1,067.8 million to RMB1,612.8 million. With a more sophisticated technology environment in the PRC and the more diversified magazine contents to cater various needs of readers, the market size of e-magazines in the PRC is expected to further rise at a CAGR of 3.1% in the next five years, reaching RMB1,819.0 million in 2022.

Number of Mobile Reading Subscribers

The number of mobile reading subscribers in China has soared from 490 million in 2013 to 762 million in 2018, representing a CAGR of 9.2%. In terms of absolute value, the total number of mobile reading subscribers has increased nearly two times within five years, attributable to the increasingly popularity of mobile devices, and expanded accessibility and functionality of mobile reading applications.

The prevalence of mobile devices is anticipated to remain steady starting from 2018, and the CAGR of number of active mobile readers, i.e. readers spending more than 30 minutes reading online in one-week period, in China will be 5.1%, reaching 931 million people in 2022.



Source: Frost & Sullivan

Market Drivers

- Technology advancement**

The rapid development of technology in mobile devices, including a more responsive user interface, higher screen resolution and contrast ratio, has improved the overall user experience. Discrepancies between reading a printed magazine and e-magazine have diminished. Meanwhile, e-magazine has offered more functions than a traditional printed magazine, such as embedded videos, real-time translations, magnifiers and more. As a result, more publishers have decided to enter the e-magazines market.

INDUSTRY OVERVIEW

- ***Changes in consumers' behavior***

As mobile devices, such as smartphones and tablets, has become more popular globally. People tend to use their portable devices more than reading printed material in their leisure time. Consumers can easily share their interested content with friends and family by using their devices with a few clicks and receive instant responses through their social network. Publishers can gain more audience responses to their content and reach their readers more directly. This has driven more companies to release their e-magazine products.

Market Trend

- ***Diversifying reading channels***

With the high penetration rate, mobile phones have become one of the major channels for audience to read e-magazines. In the near future, with the advancement of digital technology, it is expected that reading channels will no longer be restricted to mobile phones only but will be more diverse, where readers can access to a wider range of digital channels or anything connected to the internet provided by service companies. In the near future, it is expected that there will be an increase in the use of cross media to deliver reading experience.

- ***Potential for intellectual property monetization***

With a more rapid growth in the entertainment industry in the PRC over the recent years, it has stimulated more film and animation productions and the demand for high quality upstream original content of sources resulted in an increase in the market price of IP. Since the types of derivative entertainment products are diverse, which may even further extend to merchandizing and theme parks, the daily entertainment product consumption has led to an increasing monetization potential of IP. It is expected that a more sophisticated market in the entertainment market may further unleash a huge potential growth ahead for the development of IP industry and the market value for content adaptation.

Market Opportunities

- ***Diversification of sales channels***

One of the opportunities is that e-magazine can utilize social media as a platform to increase visits. Not only can this help understand more about the customers and their demand through social media, it could also form a sense of belonging and relationship with the e-magazine, driving and favoring the e-magazines market.

- ***Transformation into e-commerce***

As e-magazines allow instant interactions between platforms and multi-media, this could open up e-commerce opportunities for a wide range of product promotions and advertisements, hence increasing conversion rate and sources of income for service providers.

COMPETITIVE LANDSCAPE OF E-MAGAZINES INDUSTRY IN THE PRC

The e-magazines market is fragmented with more than 1,500 participants in the industry. There are generally three types of e-magazine service providers in China: (i) printed publishers who also produce electronic versions of their own printed magazines; (ii) e-magazine service providers who act as an agent to help converting existing magazines into electronic versions; and (iii) publishers who publish both in-house e-magazines and convert third-party magazines to electronic versions.

With the prevalence of mobile devices and a favorable reading atmosphere in the PRC, it is also expected that there will be a shift of consumers' behavior and more publishers will develop and release their digital version of magazines as an effective distribution network may reach more target readers and increase circulation of magazine content. As a result, it has driven to a more competitive environment among the industry. Competition in the e-magazines market is intense and steady where the publishers are competing to differentiate their own brand by providing more magazines and genres, establishing a more user-friendly platform for readers and cooperating with various publishers to attract more users to subscribe to their services. However, it is expected that most of the market players are Chinese publishers as it is rather difficult and restricted for foreign investors to obtain a publishing license in the PRC.

REGULATORY OVERVIEW

COMPANY LAW AND REGULATIONS RELATED TO FOREIGN INVESTED ENTERPRISE

The establishment, operation and management of corporate entities in the PRC are governed by the Company Law of the PRC (《中華人民共和國公司法》) (the “**PRC Company Law**”), which was promulgated by the Standing Committee of the National People’s Congress on 29 December 1993 and came into effect on 1 July 1994. The PRC Company Law was subsequently amended on 25 December 1999, 28 August 2004, 27 October 2005, 28 December 2013 and 26 October 2018.

According to the PRC Company Law, the company is divided into joint stock limited company and limited liability company. The PRC Company Law applies to both PRC domestic companies and foreign-invested companies.

Foreign investment in the territory of the PRC shall be governed by the Foreign Investment Law of the People’s Republic of China (《中華人民共和國外商投資法》) (the “**FIL**”), which was promulgated on 15 March 2019 and came into effect on 1 January 2020, the Regulations of the People’s Republic of China on the Implementation of the Foreign Investment Law (《中華人民共和國外商投資法實施條例》) (the “**FIL Regulations**”), which was promulgated on 26 December 2019 and came into effect on 1 January 2020, and the Measures for the Reporting of Information about Foreign Investment (《外商投資信息報告辦法》), which was promulgated on 30 December 2019 and came into effect on 1 January 2020.

RESTRICTIONS ON FOREIGN INVESTMENT

The Telecommunications Regulations of the PRC (《中華人民共和國電信條例》) (the “**Telecommunications Regulations**”), promulgated by the State Council on 25 September 2000 and amended on 29 July 2014, and 6 February 2016, provide a regulatory framework for telecommunications services providers in the PRC. The Telecommunications Regulations require telecommunications services providers to obtain an operating license prior to the commencement of their operations. The Telecommunications Regulations categorize telecommunications services into basic telecommunications services and value-added telecommunications services. According to the Catalog of Telecommunications Business (2015 version) (《電信業務分類目錄(2015年版)》), which was promulgated by the MIIT on 21 February 2003 and amended on 28 December 2015, 6 June 2019, information services provided via public communication network such as fixed network, mobile network and internet shall fall within the scope of value-added telecommunications services.

Administrative Measures for the Licensing of Telecommunication Business Operations (《電信業務經營許可管理辦法》), which was promulgated by the MIIT on 1 March 2009 and amended on 3 July 2017, provides that a commercial operator of value-added telecommunications services shall obtain an ICP License, from the MIIT or its provincial level counterparts. According to the Administrative Measures for the Licensing of Telecommunication Business Operations, a

REGULATORY OVERVIEW

telecom service operator that has obtained a permit for telecom service operation shall participate in annual inspection which is conducted by the MIIT or its provincial level counterparts.

The Regulations for the Administration of Foreign-funded Telecommunications Enterprises (revised in 2016) (《外商投資電信企業管理規定(2016修訂)》), which was promulgated by the State Council on 11 December 2001 and amended on 10 September 2008 and 6 February 2016, respectively, require foreign-funded value-added telecommunications enterprises in the PRC to be established as Sino-foreign equity joint ventures, which the foreign investors may acquire no more than 50% of the equity interests of such enterprises. In addition, the major foreign investor who invests in a foreign-funded value-added telecommunications enterprise in the PRC shall demonstrate a good track record and experience in operating a value-added telecommunications business. Moreover, foreign investors that meet these requirements shall obtain approvals from the MIIT and the MOFCOM, or their authorized local counterparts, which retain considerable discretion in granting approvals, for its commencement of value-added telecommunication business in the PRC.

On 13 July 2006, the MIIT released The Notifications of the Ministry of Information Industry on Strengthening the Management of Value-added Telecom Business with Foreign Investment (《信息產業部關於加強外商投資經營增值電信業務管理的通知》) (the “**MII Notice**”), pursuant to which, if any foreign investor intends to invest in telecommunications business in the PRC, a foreign-invested telecommunications enterprise shall be established and such enterprise shall apply for the relevant telecommunications business operation licenses. Furthermore, under the MII Notice, domestic telecommunications enterprises may not rent, transfer or sell a telecommunications business operation license to foreign investors in any form, nor may they provide any resources, premises, facilities and other assistance in any form to foreign investors for their illegal operation of any telecommunications business in the PRC. In addition, under the MII Notice, the internet domain names and registered trademarks used by a foreign-invested value-added telecommunication service operator shall be legally owned by that operator (or its shareholders).

Investment activities in the PRC of foreign investors are mainly governed by Special Administrative Measures (Negative List) for Foreign Investment Access 2019 Version (《外商投資准入特別管理措施(負面清單) (2019年版)》) (the “**Negative List**”), which was promulgated jointly by MOFCOM and the National Development and Reform Commission (the “**NDRC**”) on 30 June 2019 and became effective on 30 July 2019. According to the Negative List, the foreign-invested shares of a value-added telecommunications services company shall not exceed 50% (except for e-commerce, domestic multiparty communications services, store and forward services and call center services), and foreign investment in internet cultural business (except for music) is prohibited.

DRAFT FOREIGN INVESTMENT LAW

On 19 January 2015, the MOFCOM published the PRC's Foreign Investment Law (Discussion Draft) (《中華人民共和國外國投資法(草案徵求意見稿)》) (the “**Draft FIL**”) for public review and comments. On 15 March 2019, the National People's Congress of the PRC promulgated the Foreign Investment Law which will take effect on 1 January 2020, upon its enactment, it will replace the trio of existing laws regulating foreign investment in the PRC, namely, the Sino-foreign Equity Joint Venture Enterprise Law, the Sino-foreign Cooperative Joint Venture Enterprise Law and the Wholly Foreign-invested Enterprise Law. The Foreign Investment Law embodies an expected PRC regulatory trend to rationalize foreign investment regulatory regime in line with prevailing international practice and the legislative efforts to unify the corporate legal requirements for both foreign and domestic investments.

Among other things, the Draft FIL expands the definition of foreign investment and introduces the principle of “actual control” in determining whether a company is considered a foreign invested enterprise or a foreign invested entity (“**FIE**”). The Draft FIL specifically provides that entities established in the PRC but “controlled” by foreign investors will be treated as FIEs, whereas an entity set up in a foreign jurisdiction would nonetheless be, upon market entry clearance by the MOFCOM, treated as a PRC domestic investor, provided that the entity is “controlled” by PRC entities and/or citizens.

On 23 December 2018 and 29 January 2019, the 2018 Draft FIL was reviewed by the 7th meeting and 8th meeting, respectively, of the 13th Standing Committee of the National People's Congress. The 2018 Draft FIL was promulgated by the National People's Congress on its official website on 26 December 2018 for public consultation until 24 February 2019. On 15 March 2019, the National People's Congress of the PRC promulgated the **FIL** which came into effect on 1 January 2020. The **FIL** replaced the Sino-foreign Equity Joint Venture Enterprise Law, the Sino-foreign Cooperative Joint Venture Enterprise Law and the Wholly Foreign-invested Enterprise Law to become the legal foundation for foreign investment in the PRC. The Foreign Investment Law stipulates four forms of foreign investment. However, the Foreign Investment Law does not explicitly stipulate the contractual arrangements as a form of foreign investment.

The “variable interest entity” structure, or VIE structure, has been adopted by many PRC-based companies, including us, to operate Relevant Businesses in PRC. The Foreign Investment Law stipulates four forms of foreign investment but does not explicitly stipulate the contractual arrangements under the “variable interest equity” structure as a form of foreign investment. The Foreign Investment Law stipulates that foreign investment includes “foreign investors invest in China through any other methods under laws, administrative regulations, or provisions prescribed by the State Council”. It is possible that future laws, administrative regulations or provisions of the State Council may stipulate contractual arrangements as a form of foreign investment; then it will be uncertain as to whether our Contractual Arrangements will be recognized as foreign investment.

REGULATORY OVERVIEW

CONTRACT LAW AND RELATED JUDICIAL INTERPRETATION

According to Contract Law of the People's Republic of the PRC (《中華人民共和國合同法》) (the “**Contract Law**”), which was promulgated on 15 March 1999 by the National People's Congress, a contract with the following situation will be recognized as invalid contract: (a) a party enters into a contract with fraud, coercion means, which damages the interests of the state; (b) malicious collusion that damages the interests of the state, the collective or the third party; (c) concealing illegal purposes in lawful form; (d) harm to the public interest; and (e) violation of the mandatory provisions of laws and administrative regulations. According to The Regulations on the Application of “the People's Republic of the PRC Company Law” (No. 3) (《關於適用〈中華人民共和國公司法〉若干問題的規定(三)》) released by the supreme people's court of the PRC on 7 January 2011, entrust equity interest agreements signed by the factual shareholder and the nominee shareholder shall be valid, unless it is recognized as an invalid contract according to above provisions in the Contract Law.

REGULATIONS RELATED TO MOBILE GAMES AND INTERNET CULTURAL PRODUCTS (INCLUDING DIGITAL MEDIA CONTENT)

Pursuant to the Administrative Measures for Internet Publishing Services (《網絡出版服務管理規定》) (the “**Internet Publishing Measures**”) issued by the SAPPRFT on 4 February 2016, before publishing an online game, an online publishing service provider shall file an application with the competent provincial counterpart of the SAPPRFT in the place where it is located and the application, if approved, shall be submitted to the SAPPRFT for approve. In accordance with the applicable PRC laws and regulations, the current pre-approval from the press and publication authorities includes a two-stage process, (i) approval from the SAPPRFT at the provincial level, followed by (ii) final approval from the SAPPRFT at the national level. Failure to obtain the pre-approval of the SAPPRFT before the game is published may lead to the discontinue of relevant game and subject to a confiscation of all illegal income and major equipment and specialized tools used in illegal distribution activities. Where the illegal income is more than RMB10,000, a fine of more than 5 times but less than 10 times of such illegal income shall be imposed. Where the illegal income is less than RMB10,000, a fine of less than RMB50,000 shall be imposed.

All mobile games currently operated by our Group have complied with the Administrative Procedures, the above regulation is applicable to the Group, and has no material impact on the Group's operations and business prospects.

According to the Notice of the General Office of the SAPPRFT on the Administration of Mobile Games Publishing 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》) (“**Management Notice**”), announced on 24 May 2016 and implemented on 1 July 2016 by the General Office of the SAPPRFT, from the date of the notice implementation, without the approval of the General Office of the SAPPRFT, mobile game shall not be published and operated online. The mobile games that have been published and run online before 1 July 2016, its relevant examination and approval procedures shall be issued to the

REGULATORY OVERVIEW

administrative departments of the administrative departments at the provincial level before 1 October 2016, to continue to be published and operated online. Otherwise, the online publishing operation shall not be continued. According to the Management Notice, if the launch of new game variations or versions of existing game products involves upgrades and introduction of new information (i.e. substantial change of plots, tasks, maps, personalities of characters, characteristics of roles, and player interaction functions; together with a change in the name of the game by supplementing the existing name such as “[Existing name of game + subtitle]”, “New [existing name of game]” or “[existing name of game] 2” for promotional purpose), such upgraded version shall be deemed to be a new game and relevant approval from the SAPPRFT should be obtained. With regards to the published mobile games that will change its publishing service provider, its name or principle operating institution, the relevant documents regarding such changes shall be submitted to the relevant provincial counterpart of the SAPPRFT for review and further submitted to the SAPPRFT to complete the administration procedure for such change. According to The Notice of the General Office of the SAPPRFT on the Extension of “the notice on the management of the publishing service of mobile games” and the Notice of the Time Limit on the Work (《國家新聞出版廣電總局辦公廳關於順延〈關於移動遊戲出版服務管理的通知〉有關工作時限的通知》), issued by the General Office of the SAPPRFT on 19 September 2016, the deadline of relevant approval formalities will be postponed to 31 December 2016.

All mobile games currently operated by our Group do not involve substantial changes or upgrades, the above regulations are applicable to our Group, and have no material impact on our Group’s operations and business prospects.

In March 2018, the Central Committee of the Communist Party of China issued the “Plans for Deepening the Institutional Reform of the Party and State” (《深化黨和國家機構改革方案》) and the National People’s Congress issued the “Institutional Reform Plan of the State Council” (《國務院機構改革方案》) (collectively, the “**Institutional Reform Plans**”). According to the Institutional Reform Plans, (i) the SAPPRFT is reformed and known as the State Administration of Radio and Television of the PRC (國家廣播電視總局) under the State Council and National Administration of Press and Publication (National Copyright Bureau) (國家新聞出版署國家版權局)) under the Propaganda Department of the Central Committee of the CPC (中共中央宣傳部), and (ii) the MOC is reformed and known as the Ministry of Culture and Tourism (文化和旅遊部).

It is reported that from April 2018 to December 2018 the SAPPRFT at the national level has suspended to approve publication of online games. Since December 2018, the National Administration of Press and Publication has resumed to approve publication of online games. In June 2018, the MOC at the national level closed the online post-filing system for domestic online games in the PRC, and as at the Latest Practicable Date the system has remained closed. As at the Latest Practicable Date, no government authorities/sources, including MOC, has issued or promulgated any official policy, regulation or statement in respect of post-filing with the MOC to publishing and commercial launch of mobile games or any proposed, revised or new administrative/regulatory approval procedure involving post-filing requirements for the publishing and commercial launch of mobile games. Our PRC Legal Advisers are of the

REGULATORY OVERVIEW

view that, based on the interview conducted with the Guangdong Provincial Department of Culture and Tourism (廣東省文化和旅遊廳) in February 2019, (a) the launching of mobile games without online post-filing due to the said closure does not result in non-compliance by our Group with the relevant laws and regulations of the PRC; (b) the said closure of the online post-filing does not impede the launching of our Group's mobile games; and (c) the launching of mobile games essentially requires our Group to have obtained (i) from the pre-approval of SAPPRFT, online game publishing approval number, the relevant International Standard Book Number (ISBN); and (ii) the relevant software copyright registration certificate of the mobile game. Based on the view of our PRC Legal Advisers and that we have obtained/are able to obtain online game publishing approval number, the relevant International Standard Book Numbers (ISBN) and the software copyright registration certificates for the launch of our mobile games, our Directors are of the view that the online post-filing system closure by the MOC at the national level which commenced in June 2018 and continued up to the Latest Practicable Date did not have any material financial or operational impact to our Group.

All mobile games currently operated by our Group have complied with the Administrative Procedures, the above regulations are applicable to our Group, and have no material impact on our Group's operations and business prospects.

The Online Game Ethical Committee (網絡遊戲道德委員會) (the “OGEC”) was established in December 2018. The OGEC was established under the guidance of the Propaganda Department of the Central Committee of the CPC (中共中央宣傳部) and consist of experts and scholars from various governmental departments, universities professional institutions, news media and industry associations. The OGEC is responsible for evaluating online games and related services that may or have triggered moral controversy to assist relevant authorities in making online games related decisions (the “**relevant authorities**”). As of the Latest Practicable Date, there were no specified laws, regulations, rules or notices on its rules of composition, power, procedures and criteria of evaluation and relevant legal consequences of its decision. It is difficult to evaluate the impact of the establishment of the OGEC at this stage. However, it is possible that the relevant authorities may consequently order the online game operators to make corrections for ethical non-compliance or reject the application entirely, based on the views/recommendations of the OGEC. As at the Latest Practicable Date, we have not received any comments or instructions from the OGEC or other authorities relating to our mobile games.

According to the Interim Administrative Provisions on Internet Culture (《互聯網文化管理暫行規定》) (the “**Internet Culture Provisions**”) promulgated by the MOC on 17 February 2011 and amended on 15 December 2017 and the Notice on the Implementation of the Newly Revised “Interim Administrative Provisions on Internet Culture” (《關於實施新修訂〈互聯網文化管理暫行規定〉的通知》) promulgated by the MOC on 18 March 2011: (a) internet cultural products such as online music and entertainment, online games, online performance dramas, online performances, online works of art and online animation produced exclusively for the internet; and (b) internet cultural products including music and entertainment, games and drama or programs, performances, works of art, animation and other cultural products produced by certain technical means and copied to the internet are regulated by MOC.

REGULATORY OVERVIEW

For the purpose of these regulations, internet cultural activities refer to the activities of providing internet cultural products and services, which mainly include: (a) the activities such as production, reproduction, import, release or broadcast of internet cultural products; (b) the on-line dissemination activities, such as publishing cultural products on internet, or sending cultural products through internet or mobile communication network to such user sides as computers, fixed telephones, mobile phones, TV sets, game players, etc, as well as internet bars and other internet access service business sites for users' browse, reading, appreciation, use or downloading; and (c) the exhibitions, competitions and other similar activities in respect of internet cultural products.

On 14 May 2019, the General Office of the Ministry of Culture and Tourism (文化和旅遊部) (the “**MCT**”) released the Notice of Adjusting the Scope of Examination and Approval regarding OCO Licence to Further Regulate the Approval Work (《關於調整〈網絡文化經營許可證〉審批範圍進一步規範審批工作的通知》) (the “**Notice of Adjusting Examination Scope**”) which specifies that the MCT no longer assumes the responsibility for online game administration and it would not issue OCO Licence for online game operation (“**Administrative Change**”). As of the Latest Practicable Date, no laws, regulations or official guidelines have been promulgated regarding whether the responsibility of MCT for regulating online games will be undertaken by another governmental department.

As our mobile games (including multi-player mobile games), e-magazines and other digital media content such as comics and music fall within the definition of internet cultural products and by being a digital entertainment content provider, our businesses are regarded as internet cultural activities. Based on this, our business shall be governed by (i) the Internet Culture Provisions, (ii) the Notice on the Implementation of the Newly Revised “Interim Administrative Provisions on Internet Culture” (《關於實施新修訂〈互聯網文化管理暫行規定〉的通知》) promulgated by the MOC on 18 March 2011, and (iii) the Notice of Adjusting Examination Scope, and we therefore require OCO Licence.

The Notice 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’ jointly promulgated by the MOC, the State Administration of Radio, Film and Television (the “**SARFT**”) and the General Administration of Press, Publication, Radio, Film and Television of the PRC (the “**GAPP**”) (《關於印發〈中央編辦對文化部、國家廣播電影電視總局〉、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》), which was issued by the State Commission Office for Public Sector Reform (a division of the State Council) and became effective on 7 September 2009, provides that the State Administration of Press, Publications, Radio, Film and Television (the “**SAPPRFT**”, the successor of SARFT and GAPP) has responsibilities over the examination and approval of online games to be uploaded on the internet, the MOC will be responsible for the administration of online games uploaded.

The document also states that as the department in charge of animation, the MOC carries out unified macro-management and daily management of animation, including

REGULATORY OVERVIEW

relevant industry planning, industrial base, project construction, exhibition transaction and market supervision. Our digital media content distribution business shall be governed by the above regulations.

The Notice Regarding the Consistent Implementation of the “Regulation 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 (《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》) (the “**GAPP Notice**”), promulgated by the GAPP, together with the National Copyright Administration and the National Office of Combating Pornography and Illegal Publications, on 28 September 2009, provides, among other things, that foreign investors are not permitted to invest or engage in online game operations in the PRC through wholly-owned subsidiaries, equity joint ventures or cooperative joint ventures, and expressly prohibits foreign investors from gaining control over or participating in domestic online game operations indirectly by establishing other joint venture companies, establishing contractual agreements or providing technical support. Serious violation of the GAPP Notice will result in suspension or revocation of relevant licenses and registrations. Online game operations are also included in the operation of the internet culture regulated by the “Provisional Regulations on the Management of Internet Culture” (《互聯網文化管理暫行規定》).

The Interim Measures for the Administration of Online Games (《網絡遊戲管理暫行辦法》) (the “**Online Game Measures**”), promulgated by the MOC on 3 June 2010, implemented on 1 August 2010 and amended on 15 December 2017, imposes a lot of restrictions on the content of online games and stipulates that online games shall not contain, among others, violations of the basic principles set forth in the Chinese Constitution, endangering national unity, sovereignty and territorial integrity, violating social morality, and any other content prohibited by laws, administrative regulations and state regulations. In addition, The Online Game Measures regulate a broad range of activities related to the online game business, including the development and production of online games, the operation of online games, the issuance of virtual currencies used for online games, and virtual currency trading services. The Online Game Measures request that entities engaged in online game operations shall obtain a license to operate online cultural activities under the condition that they have a registered capital of not less than RMB10 million and any entity that is engaged in online game operations shall obtain a Network Cultural Business Permit, and require the content of an imported online game to be examined and approved by the MOC prior to the launch of the game and the content of a domestic online game shall be filed within 30 days of its launch with the MOC. The competent supervision authority may require the company who fails to comply with the this requirement to rectify the non-compliance and impose penalties up to RMB20,000. The Online Game Measures also request online game operators to protect the interests of online players and specify certain terms that shall be included in the service agreements between online game operators and the players of their online games.

REGULATORY OVERVIEW

In addition, information, including but not limited to network culture business license, should be marked on the notable position of enterprise website, product client and user service center. The network game operators should also establish the self-examination system, with special personnel to ensure legality of the content of the online game.

Pursuant to The Decision of MCT on Abolishing Online Game Measures and Measures for Planning and Administration of Tourism Development(《文化和旅遊部關於廢止〈網絡遊戲管理暫行辦法〉和〈旅遊發展規劃管理辦法〉的決定》), which was promulgated by the MCT on 10 July 2019, the Online Game Measures was abolished.

The Ministry of Culture, the former Ministry of Information Industry issued Several Opinions on Online Game Development and Management (《文化部、信息產業部關於網絡遊戲發展和管理的若干意見》) on 12 July 2005. It points out that it is necessary to intensify the management of online games, standardize the operation of online cultural markets, improve the original creativity of online games in our country, and promote the healthy development of online cultural industries. The Measure of Self Examination Management of Network Cultural Business Units (《網絡文化經營單位內容自審管理辦法》) issued by the Ministry of Culture on 12 August 2013, put forward the enhancement of self-management ability and self-discipline of enterprise to ensure rapid and healthy development of network culture.

The Notice on Several Opinions on Promoting the Development of Animation Industry in the PRC (《關於推動我國動漫產業發展若干意見的通知》) issued by the General Office of the State Council on 25 April 2006, has clarified the guidelines, basic ideas and development goals for promoting the development of the animation industry (including the production and management of electronic game products), and put forward preferential policies to encourage the development of animation industry and supportive measures in various aspects. The Guidance of the Ministry of Culture on Accelerating the Development of Cultural Industry (《文化部關於加快文化產業發展的指導意見》) issued by the Ministry of Culture on 10 September 2009, made it clear that the development direction and focus of the gaming industry is: enhance the core competitiveness of the gaming industry, promote the development of the national original network games, improve the cultural connotation of the game products, encourage the development of online game technology and electronic game hardware and software with independent intellectual property rights, optimize the game industry structure, upgrade the quality of game industry, promote the coordinated development of online games, video games and home video games and encourage game companies to build Chinese game brands and actively explore overseas markets. The Cultural Industry Revitalization Planning (《文化產業振興規劃》) issued by the General Office of the State Council on 26 September 2009, pointed out that the animation game enterprise is one of the objects that the cultural and creative industries focus on, we should support the export of products and services such as online games with national characteristics and support the entry of cultural products such as animation and online games into the international market. The Several Opinions on Promoting the Integration and Development of Cultural and Creative and Design Services and Related Industries (《國務院關於推進文化創意和設計服務與相關產業融合發展的若干意見》), issued by the State Council on 26 February 2014 proposed to speed up

REGULATORY OVERVIEW

the digital content industry development as a key task and mine outstanding cultural resources in-depth, and to promote the optimization and upgrading of animation and animation industry.

The above regulations include provisions on digital media such as animation. Our digital media content distribution business shall be governed by the above laws and regulations.

On 30 August 2018, the National Administration of Press and Publication, the Ministry of Education and six other PRC regulatory authorities jointly issued the Implementation Program on Comprehensive Prevention and Control of Adolescent Myopia (《綜合防控兒童青少年近視實施方案》)(the “**Implementation Program**”). The Implementation Program proposes to limit the number of new online games in operation, and to restrict the time minors spend playing online games. As of the Latest Practicable Date, the press and publication authorities have not issued any detailed rules to enforce the Implementation Program.

On 25 July 2014, the State Administration of Radio and Television issued the Notice of the General Office of the SAPPRFT Regarding Deepening Implementation of Authentication of Real Names for Anti-addiction 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》) and effected on 1 October 2014, which specify that subject to the hardware, technology and other factors, the anti-addiction compliance system applies to all online games excluding mobile games temporarily. The Service Guidance for the Approval of Publishing Domestic Online Games (《出版國產網絡遊戲審批事項服務指南》) issued by the State Administration of Radio and Television on 12 January 2017 further clarifies, the introduction of the adopted anti-addiction system and the evidential documents of the real-name authentication procedures required for applying publishing online games excluding mobile games temporarily. The Notice on Preventing Minors from Indulging in Online Games (《關於防止未成年人沉迷網絡遊戲的通知》) (the “**Notice**”), issued by the SAPPRFT on 25 October 2019 and came into effect on 1 November 2019, requests online game companies to implement the real-name registration system. All online game users must use valid identity information to register their game accounts. Online game companies must require existing users to complete the real-name registration within 2 months from the date of implementation of this notice and stop providing game service to users who can not complete real-name registration within the prescribed period. The time and duration used by minors shall be strictly controlled. Online game companies are banned from providing game services to minors in any form between 10 p.m. and 8 a.m. The length of time that online game companies provide game services to minors shall not exceed 3 hours per day for statutory holidays and 1.5 hours for other days. Paid services provided to minors shall be regulated. Online game companies shall not provide paid game services for users under the age of 8 years old. As for the paid game services provided by the same online game company, for users who are over 8 years old and under 16 years old, the single recharge amount shall not exceed RMB50, the monthly recharge amount shall not exceed RMB200; for users over 16 years old and under 18 years old, the amount of one single recharge shall not exceed RMB100, and the monthly recharge amount shall not exceed RMB400. The Notice applies to our games (including single-player and multi-player mobile games).

REGULATIONS RELATED TO INFORMATION SECURITY REVIEW AND PRIVACY PROTECTION

On 28 December 2000, the Standing Committee of the National People's Congress (the "SCNPC") enacted the Decisions on the Maintenance of Internet Security (《全國人民代表大會常務委員會關於維護互聯網安全的決定》), last amended on August 27, 2009 for protection of the internet security, which prohibits (a) the use of the internet that violates the PRC laws and regulations or damages the public security; (b) dissemination of illegal or socially destabilizing content or leakage of state secrets through the internet; or (c) infringement on trade secret or other legal rights and interests.

The SCNPC promulgated The Network Security Law of the People's Republic of the PRC (《中華人民共和國網絡安全法》) on 7 November 2016, which have become effective on 1 June 2017, pursuant to the law, network operators shall comply with laws and regulations and fulfill their obligations to safeguard security of the network when conducting business and providing services. Those who provide services through networks shall take technical measures and other necessary measures pursuant to laws, regulations and compulsory national requirements to safeguard the safe and stable operation of the networks, respond to network security incidents effectively, prevent illegal and criminal activities, and maintain the integrity, confidentiality and usability of network data. The law further provides that network operators shall not collect and offer personal information irrelevant to services provided, and shall not collect and use personal information in violation of the provisions of laws and administrative regulations and the terms agreed between both parties. On 2 May 2017, the Office of the central Cyberspace Affairs Commission issued the Measures for the Security Review of Network Products and Services (Trial) (《網絡產品和服務安全審查辦法(試行)》), which took effect on 1 June 2017, to provide for more detailed rules regarding cybersecurity review requirements.

On 28 December 2012, the SCNPC promulgated the Decision on Strengthening Network Information Protection (《全國人民代表大會常務委員會關於加強網絡信息保護的決定》) to enhance the legal protection of information security and privacy on the internet. On 16 July 2013, the MIIT promulgated The Provisions on Protection of Personal Information of Telecommunication and Internet Users (《電信和互聯網用戶個人信息保護規定》) to regulate the collection and use of user's personal information in the provision of telecommunication services and internet information services in the PRC. Telecommunication business operators and internet service providers are required to specify the purposes, manners and scopes of information collection and uses, obtain consent of the relevant citizens, and keep the collected personal information confidential. Telecommunication business operators and internet service providers are prohibited from disclosing, tampering with, damaging, selling or illegally providing others with, collected personal information. They are required to take technical and other measures to prevent the collected personal information from any unauthorized disclosure, damage or loss.

REGULATORY OVERVIEW

REGULATIONS ON TRADEMARK

Pursuant to the Trademark Law of the PRC (Revised in 2013) (《中華人民共和國商標法》(2013年修訂)) which was promulgated on 23 August 1982 and subsequently amended on 22 February 1993, 27 October 2001, 30 August 2013 and 1 November 2019 respectively, and the Implementation Regulation of the PRC Trademark Law, which was adopted by the State Council on 3 August 2002 (latest amended on 29 April 2014) (《中華人民共和國商標法實施條例》(2014年修訂)), registered trademarks include commodity trademarks, service trademarks, collective marks and certification marks.

The Trademark Office under the SAIC is responsible for trademark registration and granting a term of validity of 10 years for each registered trademark. Trademarks are renewable every ten years when a registered trademark needs to be used after the expiration of its validity term. A registration renewal application shall be filed within six months prior to the expiration of the term. The Chinese Trademark Law adopts the principle of “prior application” for trademark registration. The trademark applied for registration may be dismissed if the same or similar trademark as the other trademark already registered, or the trademark initially approved and approved for use on the same or similar goods or services. Any person applying for the registration of a trademark shall not prejudice the existing prior rights obtained by others, nor register a trademark preemptively that has already been used by another party and has “a certain influence”.

REGULATIONS ON COPYRIGHT

The Copyright Law of the PRC (Promulgated on 7 September 1990 and subsequently revised on 27 October 2001 and 26 February 2010, respectively) (《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 organizations shall, whether published or not, be entitled to copyright of their works, which include, among others, works of literature, art, natural science, social science, engineering technology and computer software.

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

REGULATORY OVERVIEW

REGULATIONS ON DOMAIN NAMES

According to the implementation Details of the Domain Name Registration of the PRC Internet Information Center (《中國互聯網絡信息中心域名註冊實施細則》) promulgated by the PRC Internet Network Information Center on 25 September 2002 and revised on 5 June 2009 and 29 May 2012, and the Internet Domain Name Management Measures (《互聯網域名管理辦法》) (the “**Domain Name Measures**”) promulgated by Ministry of Industry and Information Technology on 24 August 2017, the domain name registration shall be applied with the domain name registration institution, and the applicant is the holder of the domain name after successful registration.

REGULATIONS ON OFFSHORE INVESTMENT

On 21 October 2005, SAFE promulgated The Notifications of Domestic Residents through Foreign Exchange Management on Foreign Special Purpose Company Financing and Return Investment (the “**Circular No. 75**”) (《關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》), which have become effective on 1 November 2005 pursuant to which (a) in order to make overseas equity financing involves return investment, the notice requires PRC domestic resident to register or file initial registration with the local foreign exchange administration before the incorporation of the overseas special purpose corporation (“**SPV**”) or the acquisition of the company, whereby the SPV acquires or control the domestic assets or interests held by Chinese residents and (b) The PRC resident shall also make registration changes or record the material changes in (i) the assets or equity inflows into from the domestic companies or engage in overseas financing, and (ii) any material changes that may affect the share capital structure of the SPV.

On 14 July 2014, SAFE promulgated The Notice on the Issues Related to the Foreign Exchange Management of Domestic Residents Through Special Purpose Company Investment and Return Investment and Return Investment (《國家外匯管理局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(37號文)》) (the “**Circular No. 37**”), for the purpose of simplifying the approval process and promotion of the cross-border investment. The Circular No. 37 supersedes the Circular No. 75, revises and regulates the relevant matters involving foreign exchange registration for round-trip investment. Under the Circular No. 37, basic information change of registered overseas SPVs such as the individual shareholders, names, operation terms, etc, or if there is a capital increase, decrease, equity transfer or swap, merge, spin-off or other amendment of the material items, the domestic resident shall go through the alteration formalities of foreign exchange registration. In addition, according to the procedural guideline attached to the Circular No. 37, the principle of review has been changed to “the domestic individual resident is only register the SPV directly established or controlled (first level)”. At the same time, the SAFE has issued The Business Operation Guidelines for Foreign Exchange Management of Return Investment (《返程投資外匯管理所涉業務操作指引》) with respect to the procedures for SAFE registration under the SAFE Circular 37, which became effective on 4 July 2014 as an attachment of Circular 37.

REGULATORY OVERVIEW

Under the relevant rules, failure to comply with the registration procedures set forth in the SAFE Circular 37 may result in restrictions being imposed on the foreign exchange activities of the relevant onshore company, including the payment of dividends and other distributions to its offshore parent or affiliate, and may also subject relevant PRC residents to penalties under PRC foreign exchange administration regulations. PRC residents who control the company from time to time are required to register in the SAFE in connection with their investments in the company.

On 13 February 2015, SAFE promulgated the Notifications of the State Administration of Foreign Exchange on Further Simplifying and Improving the Policy of Direct Investment in Foreign Exchange Management (《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(13號文)》) (the “**SAFE Notice No. 13**”), which canceled the approval of foreign exchange registration under direct investment. Foreign investors may go directly to the bank for the relevant foreign exchange registration. In addition, it simplified the registration management to confirm the contributions of direct domestic investment funded by foreign investors.

THE PRINCIPAL LAWS AND REGULATIONS RELATED TO DIVIDEND DISTRIBUTION

According to The Regulations of the People’s Republic of the PRC on the Administration of Foreign Exchange (《中華人民共和國外匯管理條例》) promulgated by the State Council on 29 January 1996 and amended on 14 January 1997 and 5 August 2008, the Management of Foreign Exchange Settlement and Sale and Payment of Foreign Exchange Regulations (《結匯、售匯及付匯管理規定》) published in 1996 by the People’s Bank of the PRC, the investor of the foreign-funded enterprise, after paying the registered capital in full and on time, paying the enterprise income tax in accordance with the tax law of the PRC, approved by the shareholders’ resolution and extracting the necessary funds, can remit its net profit abroad in accordance with the law.

TAX RELATED LAWS AND REGULATIONS

Enterprise income tax

According to the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》) (the “**EIT Law**”) promulgated by National People’s Congress on 16 March 2007 and revised on 24 February 2017 and 29 December 2018, and the Implementing Rules of the PRC Law of Enterprise Income Tax (《中華人民共和國企業所得稅法實施條例》) (the “**EIT Implementation Rules**”), both of which came into effect on 1 January 2008, enterprises are classified as resident enterprises and non-resident enterprises. Resident enterprises refer to enterprises established in the PRC under Chinese law or established in accordance with the laws of foreign countries (regions) but actually having their management offices in the PRC. Non-resident enterprises refer to those establishments or establishments established in accordance with the laws of foreign countries (regions) where the actual management agencies are not located in the PRC but have no establishments or establishments in the territory of the PRC, or those

REGULATORY OVERVIEW

that originate in the PRC. PRC resident enterprises shall pay an enterprise income tax at the rate of 25% while a non-resident enterprise without a permanent establishment in the territory of the PRC, or no actual connection between the acquired income and its establishment or place, shall calculate its enterprise income tax on the basis of 10% of revenue from the PRC. In addition, an enterprise established outside of the PRC with its “de facto management bodies” located within the PRC is considered a “resident enterprise”, meaning that it can be treated in a manner similar to a PRC domestic enterprise for enterprise income tax purposes. The Implementing Rules of the EIT Law define de facto management body as a managing body that in practice exercises “substantial and overall management and control over the production and operations, personnel, accounting, and properties” of the enterprise.

According to the EIT Law, the EIT tax rate of a high-tech enterprise is 15%. Pursuant to the Administrative Measures for the Recognition of High-tech Enterprises (《高新技術企業認定管理辦法》), effected on 1 January 2008 and amended on 29 January 2016, and the certificate of a High-tech enterprises is valid for three years. An enterprise shall, after being accredited as a high-tech enterprise, fill out and submit the annual status report on the “High-tech Enterprise Accreditation Network” concerning intellectual property rights, scientific research personnel, research and development expenses and operating income of the previous year. If any high-tech enterprise has changed its name or has undergone any major change concerning the accreditation conditions (such as a division, merger, reorganization or change of business), it shall report the change to the accreditation institution within three months upon occurrence of the change.

According to the Circular on Further Expanding the Coverage of the Preferential Income Tax Policy for Small Low-profit Enterprises (《關於進一步擴大小型微利企業所得稅優惠政策範圍的通知》) released on 11 July 2018, and the Announcement of the State Administration of Taxation on Matters Concerning the Administration of Tax Collection for Implementing the Policy of Further Expanding the Coverage of the Preferential Income Tax Policy for Small Low-profit Enterprises (《國家稅務總局關於貫徹落實進一步擴大小型微利企業所得稅優惠政策範圍有關徵管問題的公告》) issued and implemented on 13 July 2018, eligible small low-profit enterprises can enjoy 50% taxable income deduction and pay enterprise income tax at the rate of 20%. These two regulations have been replaced respectively by the Circular of the Ministry of Finance and the State Administration of Taxation on Implementing the Policy on Inclusive Tax Reliefs for Small Low-profit Enterprises (《財政部、稅務總局關於實施小微企業普惠性稅收減免政策的通知》) (the “**Circular of the Tax Reliefs for SME**”) released on 17 January 2019 and the Announcement of the State Administration of Taxation on Issues concerning the Implementation of the Policy on Inclusive Income Tax Reliefs for Small Low-profit Enterprises (《國家稅務總局關於實施小型微利企業普惠性所得稅減免政策有關問題的公告》) (the “**Announcement of the Income Tax Reliefs for SLE**”) released on 18 January 2019.

According to the Circular of the Tax Reliefs for SME and the Announcement of the Income Tax Reliefs for SLE, the enterprise income tax levied on the portion of annual taxable income of a small low-profit enterprise which does not exceed RMB1 million shall be computed at 25% of the total annual taxable income amount, and the enterprise income tax rate shall be 20%, for the portion of annual taxable income amount which exceeds RMB1

REGULATORY OVERVIEW

million but does not exceed RMB3 million, the enterprise income tax shall be computed at 50% of total annual taxable income amount, and the enterprise income tax rate shall be 20%.

Value-added tax

Pursuant to the Provisional Regulations on Value-Added Tax of the PRC (《中華人民共和國增值稅暫行條例》) last amended on 19 November 2017, and its Implementation Rules (《中華人民共和國增值稅暫行條例實施細則》) promulgated by the Ministry of Finance and last amended on 28 October 2011, tax payers engaging in sale of goods, provision of processing services, repairs and replacement services, sales of services, intangible assets or real property, or importation of goods within the territory of the PRC shall pay value-added tax (the “VAT”).

On 16 November 2011, the Ministry of Finance and the SAT jointly promulgated the Pilot Plan for Levying Value-Added Tax in lieu of Business Tax (《營業稅改徵增值稅試點方案》). Starting from 1 January 2012, the PRC government has been gradually implementing a pilot program in certain provinces and municipalities, to levy a 6% VAT on revenue generated from certain kinds of services in lieu of the business tax.

The Measures for the Exemption of Value-Added Tax from Cross-Border Taxable Activities in the Collection of Value-Added Tax in Lieu of Business Tax (for Trial Implementation) (《營業稅改徵增值稅跨境應稅行為增值稅免稅管理辦法(試行)》), which was promulgated on 6 May 2016 and amended on 15 June 2018 by the SAT, provides that if a domestic enterprise provides cross-border taxable activities such as professional technology services, technologies transfer, software service etc., the above mentioned cross-border taxable activities shall be exempted from the VAT.

On 23 March 2016, the MOF and the SAT jointly issued the Circular of Full Implementation of Business Tax to Value-added Tax Reform (《財政部、國家稅務總局關於全面推開營業稅改徵增值稅試點的通知》) which confirms that business tax would be completely replaced by the VAT from 1 May 2016.

Pursuant to the Notice of the MOF and the SAT on the Adjustment to Value-added Tax Rates (《財政部、國家稅務總局關於調整增值稅稅率的通知》) issued on 4 April 2018 and came into effect on 1 May 2018, the tax rates of 17% and 11% applicable to the taxpayers who have VAT taxable sales activities or imported goods are adjusted to 16% and 10%, respectively.

Pursuant to the Announcement on Relevant Policies for Deepening Value-Added Tax Reform (《關於深化增值稅改革有關政策的公告》) issued on 20 March 2019 and came into effect on 1 April 2019, the tax rates of 16% and 10% applicable to the taxpayers who have VAT taxable sales activities or imported goods are adjusted to 13% and 9%, respectively.

REGULATORY OVERVIEW

REGULATIONS ON EMPLOYMENT AND SOCIAL WELFARE

Employment Laws

The PRC Labor Law (《中華人民共和國勞動法》), which became effective on 1 January 1995 and amended on 27 August 2009 and 29 December 2018, and PRC Labor Contract Law (《中華人民共和國勞動合同法》) (the “**Labor Contract Law**”), which became effective on 1 January 2008 and was amended on 28 December 2012, provide for collective contracts to be developed through collaboration between the labor union (or employees representatives in the absence of a union) and management that specify such matters as working conditions, wage scale, and hours of work. The laws also permit employees and employers in all types of enterprises to sign individual labor contracts. The Labor Contract Law has enhanced rights for employees, including permitting open-ended labor contracts and severance payments. The legislation requires employers to provide written contracts to their employees, and makes it harder for employers to lay off employees. It also requires that employees with fixed-term contracts be entitled to an open-ended contract after a fixed-term contract is renewed twice or the employee has worked for the employer for a consecutive ten-year period.

Social insurance and housing fund

On 28 October 2010, the National People’s Congress of the PRC promulgated the PRC Social Insurance Law (《中華人民共和國社會保險法》) (the “**Social Insurance Law**”), which became effective on 1 July 2011 and amended on 29 December 2018. In accordance with the Social Insurance Law and other relevant laws and regulations, the PRC establishes a social insurance system including basic pension insurance, basic medical insurance, work-related injury insurance, unemployment insurance and maternity insurance. An employer shall pay the social insurance for its employees in accordance with the rates provided under relevant regulations and shall withhold the social insurance that should be assumed by the employees. The authorities in charge of social insurance may request an employer’s compliance and impose sanctions if such employer fails to pay and withhold social insurance in a timely manner. Under the Regulations on the Administration of Housing Fund (《住房公積金管理條例》) which was promulgated by the State Council on 3 April 1999 and amended on 24 March 2002, 24 March 2019, PRC companies shall register with applicable housing fund management centers and establish a special housing fund account in an entrusted bank. Both PRC companies and their employees are required to fully contribute to the housing funds. If the employer fails to fully contribute to the housing fund, the fund administration center shall order the employer to make up the difference within prescribed time limit.

M&A RULES

On August 8, 2006, six PRC regulatory agencies, including the CSRC adopted the M&A Rules, which became effective on 8 September 2006 and was amended on 22 June 2009. Foreign investors shall comply with the M&A Rules when they purchase equity interests of a domestic company or subscribe the increased capital of a domestic company, and thus changing the nature of the domestic company into a foreign-invested enterprise; or when the

REGULATORY OVERVIEW

foreign investors establish a foreign-invested enterprise in the PRC, purchase the assets of a domestic company and operate the assets; or when the foreign investors purchase the asset of a domestic company, establish a foreign-invested enterprise by injecting such assets and operate the assets. The M&A Rules purport, among other things, to require offshore special purpose vehicles formed for overseas listing purposes through acquisitions of PRC domestic companies and controlled by PRC companies or individuals, to obtain the approval of the CSRC prior to publicly listing their securities on an overseas stock exchange.

HISTORY, REORGANIZATION AND GROUP STRUCTURE

OUR HISTORY

The founding of our Group

Our Group started its digital media content distribution business in 2011 with the establishment of a business relationship with an affiliate of China Mobile Internet, which acted as our major settlement agent and distribution channel provider responsible for collecting our Group's revenue, for the development of e-magazines. Family Doctor has been the primary entity through which we operate our businesses.

Family Doctor, our principal Consolidated Affiliated Entity, was established in the PRC on 5 May 2011 by Mr. Lu and Ms. Su, being two of our Controlling Shareholders. Mr. Lu and Ms. Su confirm that the establishment of Family Doctor was funded by personal funds from previous employment and previous business activities.

Following a series of transfers of equity interests and alterations of registered capital in Family Doctor since 2011, Family Doctor was, as at the Latest Practicable Date, held by the late Mr. Chen and Guangzhou Jiu Zun, through which we enjoy economic benefits over the businesses conducted through Family Doctor, as to 7% and 93%, respectively. Please see the paragraph headed "Our Company and Principal Consolidated Affiliated Entity" of this section for further details of the corporate history of Family Doctor.

KEY MILESTONES

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

Date	Event
2011	Commenced our digital media business in the PRC, based in Guangzhou, with the establishment of a business relationship with an affiliate of China Mobile Internet for the development of e-magazines. Obtained our first 《增值電信業務經營許可證》(SP Licence).
2013	Obtained our first 《網絡文化經營許可證》(OCO Licence).
2014	Commenced our mobile games business in the PRC with the launch of our mobile games, 撞撞鳥糖果版 (Crashing Bird Candy Version*) being one of the first popular mobile game. Launched our first self-developed game, 萌將春秋OL (The Warlords in the Spring and Autumn Period*). Obtained our first 《高新技術企業證書》(high-technology enterprise certificate).
2015	Operated more than 700 mobile games in our gaming portfolio.

HISTORY, REORGANIZATION AND GROUP STRUCTURE

Date	Event
2016	Obtained our first entertainment property, 倒霉熊 (Backkom*) and developed into a game.
2017	Obtained one of the popular entertainment properties in the PRC and incorporated into our game 夢想三國 (Dream Sanguo*), generating revenue of over RMB3.0 million in the first 3 months since its launch. Distributed revenue from more than 50 e-magazines comprised in our digital media portfolio.
2018	Our Company was incorporated as an exempted company with limited liability in the Cayman Islands.
2019	Launched our first multi-player mobile game

OUR GROUP STRUCTURE AND HISTORICAL TRUST ARRANGEMENTS

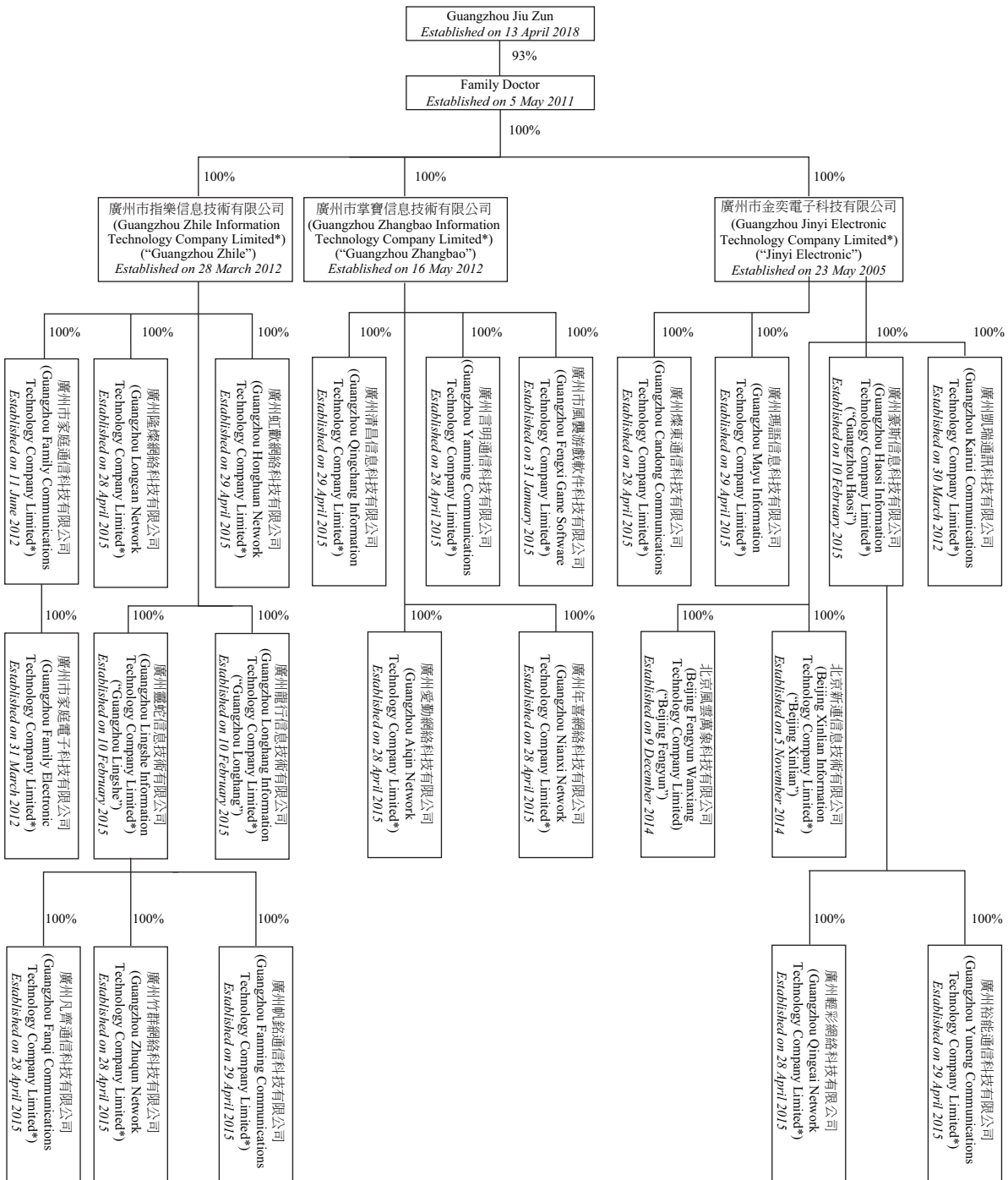
Background

We are a digital entertainment content provider in the PRC with a diversified content portfolio comprising (i) mobile games, (ii) e-magazines, and (iii) other digital media content such as comics and music. Given that (i) each of our Consolidated Affiliated Entities holds an OCO Licence (save for Guangzhou Yuneng Communications Technology Company Limited, Guangzhou Fanming Communications Technology Company Limited, Guangzhou Kairui Communications Technology Company Limited and Guangzhou Lingshe Information Technology Company Limited for which the OCO Licences have expired as of the Latest Practicable Date); (ii) foreign investment in enterprises holding OCO Licences is prohibited under the PRC laws and regulations; and (iii) any foreign-funded enterprise (except foreign-funded enterprises held as to not more than 49% by permanent residents of Hong Kong and/or Macau) will not be allowed to apply for an OCO Licence, our PRC Legal Advisers are of the view that our Company, being a foreign investor, is prohibited from obtaining an OCO Licence to conduct our businesses and prohibited from acquiring any equity interest in the Consolidated Affiliated Entities. In addition, as the operation of our businesses in the PRC is subject to foreign investment restrictions in accordance with the Special Administrative Measures (Negative List) for Foreign Investment Access 2019 Version (《外商投資准入特別管理措施(負面清單)》(2019年版)), our PRC Legal Advisers are also of the view that our Company, being a foreign investor, is prohibited from holding any direct or indirect equity interest in our Consolidated Affiliated Entities.

As a result of the foregoing, on 23 February 2019, WFOE entered into various agreements that constitute the Contractual Arrangements with Guangzhou Jiu Zun, which holds 93% of the equity interest in Family Doctor, and its registered shareholders, to assert control over the businesses conducted through Family Doctor and its subsidiaries and enjoy 93% of the economic benefits of Family Doctor and its subsidiaries. Accordingly, pursuant to the Contractual Arrangements, the financial results of our Consolidated Affiliated Entities are consolidated into our consolidated financial statements as if they were subsidiaries of our Group.

HISTORY, REORGANIZATION AND GROUP STRUCTURE

Upon completion of the Reorganization, we have 27 Consolidated Affiliated Entities. The following chart illustrates the corporate structure of the Consolidated Affiliated Entities upon completion of the Reorganization:



HISTORY, REORGANIZATION AND GROUP STRUCTURE

24 of the Consolidated Affiliated Entities had adopted a trust arrangement in the past whereby the beneficial owners of the relevant Consolidated Affiliated Entities entrusted all or part of their equity interest to certain employees (current or previously employed), relatives or friends of the senior management or directors, or certain business partners of the relevant Consolidated Affiliated Entities to be held on behalf of the beneficial owners of the relevant Consolidated Affiliated Entities.

Family Doctor has been the primary entity through which we operate our businesses. Nevertheless, each of our Consolidated Affiliated Entities hold an OCO Licence and/or SP Licence (save for Guangzhou Yuneng Communications Technology Company Limited, Guangzhou Fanming Communications Technology Company Limited, Guangzhou Kairui Communications Technology Company Limited and Guangzhou Lingshe Information Technology Company Limited for which the OCO Licences have expired as of the Latest Practicable Date) for conducting our businesses. In addition, save for Guangzhou Jiu Zun, which was established for the purpose of consolidating the 93% equity interests in Family Doctor, all Consolidated Affiliated Entities have entered into agreements with settlement agents and/or distribution channel providers for our mobile games.

Rationales for the group structure and trust arrangements

The trust arrangements for the Consolidated Affiliated Entities were established to (i) accommodate the implementation of internal operation policies of China Mobile Internet for the purpose of maintaining the working relationship between Family Doctor and China Mobile Internet and/or its affiliates, which has been our major settlement agent since 2011 and was responsible for collecting approximately 99.4%, 99.8%, 98.6% and 70.6% of our Group's revenue during the Track Record Period, respectively, and (ii) minimize the chance of Family Doctor being maliciously targeted and attacked by competitors and for risk allocation purposes as further explained below.

Internal operation policies of China Mobile Internet

Pursuant to China Mobile Internet's internal operation policies, each "authorized provider" ("AP") (such as Family Doctor and its subsidiaries) is assigned a ranking based on China Mobile Internet's ongoing assessment of the APs' performances and service quality, including factors such as whether the APs have received any negative feedback from players or third-party distribution channel providers used by the AP are not operating in accordance with China Mobile Internet's operation rules and regulations. APs will be subject to different daily income limits, known as "total permitted daily income" (日收入限額) (such income being derived from user purchases), depending on their rankings, which range from RMB10,000 to RMB5,000,000 ("**Income Limit**"). As such, the AP rankings will affect the amount of daily revenue that may be generated by the APs. In 2015, an affiliate of China Mobile Internet released an official notice in relation to the implementation of such internal policy ("**Income Policy**").

HISTORY, REORGANIZATION AND GROUP STRUCTURE

In 2015, an affiliate of China Mobile Internet released an official notice in relation to the implementation of a management system, which set out, among other things, the evaluation criteria and management standards in relation to the number of negative feedback received by each AP (“**Feedback Policy**”, together with the Income Policy, the “**Policies**”). APs with lower rankings are subject to a lower limit as to the number of negative feedback received from players (“**Negative Feedback Limit**”, together with the Income Limit, the “**Policies’ Limits**”). If the number of negative feedback received by an AP exceeds its Negative Feedback Limit, the AP’s ranking will be adversely affected and China Mobile Internet or its affiliate may impose different penalties on the AP, such as, among others, (i) delaying payment to the AP for up to approximately six months; (ii) suspending operation of the mobile games by the AP for up to approximately three months; and (iii) terminating its settlement agreement with the AP.

Measures adopted by Family Doctor

In early 2015, as confirmed by our Directors, Family Doctor was made aware of the Policies and their proposed implementation in the third quarter of 2015. Therefore, Family Doctor, through its subsidiaries, established and/or acquired a large number of entities in the PRC in 2015 in anticipation of the implementation of the Policies for the following reasons:

- Family Doctor operated different mobile games under different entities, and thus different APs, to prevent interruption to its mobile game operation in the event China Mobile Internet or its affiliate terminated the settlement agreement with any of the entities, whereby Family Doctor could continue the operation of such mobile games through other entities;
- Family Doctor wanted to develop more APs with higher rankings to enjoy higher Policies’ Limits under the Policies. In the event China Mobile Internet or its affiliate terminated the settlement agreement with any of its entities, Family Doctor would still be able to rely on other APs with high rankings; and
- Family Doctor believed that some of the entities through which it operated games might have been previously maliciously targeted and attacked by competitors, including among other things, false negative feedback being made by competitors, resulting in the termination of settlement agreements between certain entities of Family Doctor and an affiliate of China Mobile Internet during the period of 2015 to 2016. By operating different games under different entities, Family Doctor was at that time able to (i) prevent its competitors from fully comprehending the true scale of its business structure so as to minimize the chances of being maliciously targeted by its competitors; and (ii) diversify Family Doctor’s risk exposures so that its risks would not be over-exposed in one particular entity.

China Mobile Internet has confirmed that it is aware of the corporate structure of our Group and has no objections to such arrangement.

HISTORY, REORGANIZATION AND GROUP STRUCTURE

Family Doctor and its subsidiaries also adopted various rectification measures in 2015 regarding (i) malicious targeting by Family Doctor's and/or its subsidiaries' competitors; and (ii) non-compliance with the rules and regulations of China Mobile Internet and/or its affiliates by third party distribution channel providers used by Family Doctor and its subsidiaries. As a result of adopting the rectification measures, the number of penalties imposed by China Mobile Internet or its affiliate decreased significantly from 98 in the year ended 31 December 2015 to 32 in FY2016, 23 in FY2017, 21 in FY2018 and three in 9M2019.

Industry practice

According to Frost & Sullivan, an independent market research company which has been commissioned by us to prepare a market research report on the mobile games and e-magazines market in China, the use of trust arrangement is not uncommon and is an industry norm amongst mobile games companies. Frost & Sullivan has arrived at such conclusion in the process of producing its market research report on the following basis:

- (a) interviewees with substantial industry experiences, including but not limited to a deputy general manager of the mobile application market division and a manager from the "Mobile Market" department of China Mobile Internet, have agreed during their interviews with Frost & Sullivan that the use of trust arrangement is seen amongst single-player mobile games companies;
- (b) interviewees of various mobile game companies have agreed during their interviews with Frost & Sullivan that the use of trust arrangement is seen amongst single-player mobile games companies; and
- (c) publicly available information found on the internet has shown that the use of trust arrangement is seen amongst mobile game developers.

In light of the abovementioned (a), (b) and (c), Frost & Sullivan considers that the establishment of trust arrangement is not uncommon and is an industry norm amongst single-player mobile games companies.

Current group structure

Save for Guangzhou Aiqin Network Technology Company Limited, Guangzhou Nianxi Network Technology Company Limited and Guangzhou Jiu Zun, each of which did not have any trust arrangements, and save for Guangzhou Fengxi Game Software Technology Company Limited, Beijing Fengyun and Beijing Xinlian, which had their respective trust arrangements unwound on 19 February 2016, 29 January 2018 and 25 January 2018, respectively, all of the relevant Consolidated Affiliated Entities had their respective trust arrangements unwound prior to the Track Record Period. We have unwound all trust arrangements in relation to the Consolidated Affiliated Entities in preparation for our Listing.

HISTORY, REORGANIZATION AND GROUP STRUCTURE

As at the Latest Practicable Date, all of the subsidiaries of Family Doctor were held by Family Doctor directly or indirectly.

Our Group will maintain a group structure with a large number of Consolidated Affiliated Entities (i) as each of our Consolidated Affiliated Entities hold an OCO Licence and/or SP Licence (save for Guangzhou Yuneng Communications Technology Company Limited, Guangzhou Fanming Communications Technology Company Limited, Guangzhou Kairui Communications Technology Company Limited and Guangzhou Lingshe Information Technology Company Limited for which the OCO Licences have expired as of the Latest Practicable Date) for conducting our businesses; (ii) as all the Consolidated Affiliated Entities (save for Guangzhou Jiu Zun) have entered into agreements with settlement agents and/or distribution channel providers for our mobile games; and (iii) to diversify risk exposures of the Consolidated Affiliated Entities.

Our PRC Legal Advisers have advised that (i) all the historical trust arrangements adopted by our Consolidated Affiliated Entities; and (ii) the termination of such trust arrangements were legal, valid, enforceable and binding on such trustees under PRC laws and regulations.

OUR COMPANY AND PRINCIPAL CONSOLIDATED AFFILIATED ENTITY

The following describes the corporate history of our Company and our principal Consolidated Affiliated Entity.

(1) Our Company

Our Company was incorporated under the laws of the Cayman Islands as an exempted company with limited liability on 5 February 2018 with an initial authorized share capital of HK\$390,000 divided into 39,000,000 shares of HK\$0.01 each. Upon its incorporation, our Company issued a total of 100,000 Shares for a total consideration of HK\$1,000, which was beneficially owned as to approximately 32.26%, 26.88%, 26.88%, 7.53% and 6.45% by JL, LJHJH, WS, DW and LTZL, respectively. Each of JL, LJHJH, WS, DW and LTZL is wholly-owned by Mr. Liang, Mr. Lu and his spouse Ms. He, Ms. Su, Mr. Xu and Ms. Zhang, respectively.

As at the Latest Practicable Date, our Company was beneficially owned as to approximately 32.26%, 26.88%, 26.88%, 7.53% and 6.45% by JLCY SAGA, LJHJH SAGA, WW SAGA, DW SAGA and LTZL SAGA, respectively. Each of JLCY SAGA, LJHJH SAGA, WW SAGA, DW SAGA and LTZL SAGA is the intermediate holding company of Mr. Liang, Mr. Lu and his spouse Ms. He, Ms. Su, Mr. Xu and Ms. Zhang, respectively.

Following completion of the Reorganization, our Company became the holding company of our Group. Please see the paragraph headed “Corporate Reorganization” of this section for details about the Reorganization.

(2) Our principal Consolidated Affiliated Entity

We conduct our business principally through Family Doctor with most of our employees employed and our head office rented by Family Doctor. Family Doctor also made a material contribution to our financial results for the Track Record Period, respectively. Family Doctor holds an SP Licence and an OCO Licence for conducting our businesses.

Family Doctor was established in the PRC on 5 May 2011 by Mr. Lu and Ms. Su with a respective beneficial equity interest of 50% each through trust arrangements. Pursuant to entrusted equity interest agreements dated 1 May 2011 entered into amongst Mr. Lu, Ms. Rong, Ms. Su and Ms. Yu Fang (余芳女士) and entrusted equity interest confirmations signed by Mr. Lu, Ms. Rong, Ms. Su and Ms. Yu Fang (余芳女士) on 20 April 2018, Ms. Rong held 50% equity interest and 10% equity interest in Family Doctor on trust for Mr. Lu and Ms. Su, respectively, while Ms. Yu Fang (余芳女士) held 40% equity interest in Family Doctor for Ms. Su.

Following certain changes to the entrusted equity holder(s) of Family Doctor, on 29 December 2014, Ms. Rong and Mr. Liang Huakang (梁華康先生), as the entrusted equity holders for Mr. Lu and Ms. Su respectively, unwound their respective trust arrangement and transferred each of their 50% legal equity interest in Family Doctor back to Mr. Lu and Ms. Su, respectively. Pursuant to the entrusted equity interest confirmations signed by Mr. Lu and Ms. Rong on 20 April 2018 and by Ms. Su and Mr. Liang Huakang on 23 April 2018, respectively, the parties confirmed that the trust arrangement between Mr. Lu and Ms. Rong and between Ms. Su and Mr. Liang Huakang, respectively, had been terminated since 29 December 2014. Our PRC Legal Advisers confirm that the respective trust arrangement (and accordingly the entrustment relationship) between Mr. Lu and Ms. Rong, and Ms. Su and Mr. Liang Huakang, respectively, were terminated on 29 December 2014.

Mr. Lu and Ms. Su had used trust arrangements holding their beneficial equity interests in Family Doctor in the past for administrative convenience. They had unwound their respective trust arrangement when Family Doctor commenced seeking for investors in the capital market.

As confirmed by our PRC Legal Advisers, the trust arrangement (and accordingly the entrustment relationship) between Mr. Lu and Ms. Rong, and Ms. Su and Mr. Liang Huakang had been terminated since 29 December 2014 and that the transfer by Ms. Rong and Mr. Liang Huakang of their legal equity interest in Family Doctor to Mr. Lu and Ms. Su, respectively, on 29 December 2014 was merely the unwinding of the trust arrangement and termination of the entrustment relationship between Mr. Lu and Ms. Rong, and Ms. Su and Mr. Liang Huakang, respectively. As all the entrusted equity holders of Family Doctor during the period since the establishment of Family Doctor to December 2014 were holding the equity interest in Family Doctor for Mr. Lu and Ms. Su, each of Mr. Lu and Ms. Su had been the beneficial owner of 50% equity interest in Family Doctor since 5 May 2011 when each of Ms. Rong and Ms. Yu Fang became a legal equity holder of Family Doctor.

HISTORY, REORGANIZATION AND GROUP STRUCTURE

Pursuant to an equity transfer agreement dated on 15 May 2015 and a supplemental agreement dated on 20 May 2015, entered into between Mr. Lu, Ms. Su, Shenzhen Zhongjin, Mr. Xu, the late Mr. Chen and Ms. Zhang. Mr. Lu transferred 25% of his equity interest in Family Doctor to Shenzhen Zhongjin for a consideration of RMB125,000,000, the consideration of which was determined with reference to the estimated future earnings of Family Doctor based on the then available market data of comparable businesses, and Ms. Su transferred 5%, 7%, 7% and 6% of her equity interest in Family Doctor (representing a total of 25% equity interest in Family Doctor) to Shenzhen Zhongjin, Mr. Xu, Mr. Chen and Ms. Zhang for a consideration of RMB25,000,000, RMB35,000,000, RMB35,000,000 and RMB30,000,000, respectively, the consideration of which were determined with reference to the estimated future earnings of Family Doctor based on the then available market data of comparable businesses. Shenzhen Zhongjin held an aggregate of 30% equity interest in Family Doctor on behalf of Mr. Liang pursuant to an entrusted equity interest agreement dated 15 May 2015 entered into between Mr. Liang and Shenzhen Zhongjin. The aforesaid transfer was registered by the competent PRC government authority on 11 June 2015. As a result of the aforesaid transfer, Family Doctor was held by Shenzhen Zhongjin on trust for Mr. Liang, Mr. Lu, Ms. Su, Mr. Xu, the late Mr. Chen and Ms. Zhang as to 30%, 25%, 25%, 7%, 7% and 6% respectively. Each of Mr. Liang (through Shenzhen Zhongjin), Mr. Xu, the late Mr. Chen and Ms. Zhang acquired equity interest in Family Doctor as they were optimistic about the business prospects of Family Doctor.

Pursuant to an equity transfer agreement entered into between Mr. Lu and Yujiang Yingming Investment, and Ms. Su and Yujiang Chenghe Investment on 20 November 2015, respectively, Mr. Lu and Ms. Su each transferred their 25% equity interest in Family Doctor to Yujiang Yingming Investment, a company indirectly owned as to 99.9% by Mr. Lu and 0.1% by Ms. He (being Mr. Lu's spouse) and Yujiang Chenghe Investment, a company indirectly wholly owned by Ms. Su, for a consideration of RMB5,080,000 respectively, the consideration which were determined at the request of the relevant local PRC government authority. The aforesaid transfer was registered by the competent PRC government authority on 9 December 2015. As a result of the aforesaid transfer, Family Doctor was held by Shenzhen Zhongjin, Yujiang Yingming Investment, Yujiang Chenghe Investment, Mr. Xu, the late Mr. Chen and Ms. Zhang as to 30%, 25%, 25%, 7%, 7% and 6% respectively.

Pursuant to an equity transfer agreement entered into between Mr. Liang and Shenzhen Zhongjin on 27 December 2017, Shenzhen Zhongjin transferred its 30% equity interest in Family Doctor (held on behalf of Mr. Liang) to Mr. Liang for a consideration of RMB3,000,000, the consideration which was determined at the request of the relevant local PRC government authority. The aforesaid transfer was registered by the competent PRC government authority on 2 January 2018. As a result of the aforesaid transfer, Family Doctor was held by Mr. Liang, Yujiang Yingming Investment, Yujiang Chenghe Investment, Mr. Xu, the late Mr. Chen and Ms. Zhang as to 30%, 25%, 25%, 7%, 7% and 6% respectively.

Mr. Liang had used trust arrangement holding his beneficial equity interest in Family Doctor in the past for personal family reasons. He had unwound his trust arrangement in preparation for our Listing.

HISTORY, REORGANIZATION AND GROUP STRUCTURE

As confirmed by our PRC Legal Advisers, the trust arrangement (and accordingly the entrustment relationship) between Mr. Liang and Shenzhen Zhongjin had been terminated since 2 January 2018 and that Shenzhen Zhongjin's transfer of its 30% equity interest in Family Doctor to Mr. Liang on 2 January 2018 was merely the unwinding of the trust arrangement and termination of the entrustment relationship between Mr. Liang and Shenzhen Zhongjin. As such, Mr. Liang had been the beneficial owner of 30% equity interest in Family Doctor since 11 June 2015 when Shenzhen Zhongjin became a legal equity holder of Family Doctor.

As part of the Reorganization, on 28 April 2018, Mr. Liang, Yujiang Yingming Investment, Yujiang Chenghe Investment, Mr. Xu and Ms. Zhang transferred their respective equity interest of 30%, 25%, 25%, 7% and 6%, being an aggregate of 93%, in Family Doctor to Guangzhou Jiu Zun. The aforesaid transfer was registered by the competent Chinese government authority on 4 May 2018. As a result of the aforesaid transfer, Family Doctor is held by Guangzhou Jiu Zun and the late Mr. Chen as to 93% and 7%, respectively.

The aforesaid consolidation of 93% equity interest in Family Doctor to Guangzhou Jiu Zun was carried out as Mr. Chen had passed away with his estate pending probate in the PRC and thus the 7% equity interest in Family Doctor could not be brought under the Contractual Arrangements. The Contractual Arrangements would be entered into between WFOE, Guangzhou Jiu Zun and its registered shareholders to consolidate 93% of the economic benefits, and thus financial results, of Family Doctor and its subsidiaries into our Group.

Our PRC Legal Advisers confirm that the registered capital of Family Doctor in the amount of RMB10,000,000 has been fully paid up. Our PRC Legal Advisers have advised that (i) all the historical trust arrangements regarding the equity interest in Family Doctor; and (ii) the termination of such trust arrangements regarding the equity interest in Family Doctor were legal, valid, enforceable and binding on such trustees under the PRC laws and regulations.

OUR CONTROLLING SHAREHOLDERS

Mr. Liang, Mr. Lu, Ms. He (being Mr. Lu's spouse) and Ms. Su, together with their respective intermediate holding companies (including JLCY SAGA, LJHJH SAGA and WW SAGA) are collectively the Controlling Shareholders of our Group.

Mr. Lu and Ms. Su are the co-founders of Family Doctor and each of them held 50% equity interest in Family Doctor through trust arrangements at the time when Family Doctor was established in May 2011. By virtue of their long standing relationships, Mr. Lu and Ms. Su have been reaching voting decisions on an unanimous basis since the establishment of Family Doctor in May 2011. This has been supported by an acting-in-concert confirmation dated 23 July 2018 signed by Mr. Lu and Ms. Su (the "**First Acting-In-Concert Confirmation**").

HISTORY, REORGANIZATION AND GROUP STRUCTURE

The collective decision making and voting of Mr. Lu and Ms. Su further included Mr. Liang on 11 June 2015 when Mr. Liang joined as a shareholder of Family Doctor with Shenzhen Zhongjin holding the 30% equity interest in Family Doctor on trust for Mr. Liang due to personal family reasons. Mr. Liang participated in the collective decision making and voting through Shenzhen Zhongjin. This has been supported by an acting-in-concert confirmation dated 23 July 2018 signed by Mr. Lu, Ms. Su and Mr. Liang (the “**Second Acting-In-Concert Confirmation**”).

Pursuant to an equity transfer agreement entered into between Mr. Liang and Shenzhen Zhongjin on 27 December 2017, Shenzhen Zhongjin transferred its 30% equity interest in Family Doctor to Mr. Liang. The aforesaid transfer was registered by the competent PRC government authority on 2 January 2018. As confirmed by our PRC Legal Advisers, the trust arrangement (and accordingly the entrustment relationship) between Mr. Liang and Shenzhen Zhongjin had been terminated since 2 January 2018 and that Shenzhen Zhongjin’s transfer of its 30% equity interest in Family Doctor to Mr. Liang on 2 January 2018 was merely the unwinding of the trust arrangement and termination of the entrustment relationship between Mr. Liang and Shenzhen Zhongjin. As such, Mr. Liang had been the beneficial owner of 30% equity interest in Family Doctor since 11 June 2015 when Shenzhen Zhongjin became a legal equity holder of Family Doctor, despite the trust arrangement between Shenzhen Zhongjin and Mr. Liang was unwound on 2 January 2018 and Mr. Liang joined the Board in February 2018. The unwinding of the trust arrangement was carried out in preparation of our Listing.

After Mr. Liang joined as a beneficial owner of 30% equity interest in Family Doctor on 11 June 2015, Mr. Lu directly held 25%, Ms. Su directly held 25% and Shenzhen Zhongjin held 30% on trust for Mr. Liang of the equity interest in Family Doctor. Mr. Liang, Mr. Lu and Ms. Su have formed a group of equity holders controlling the exercise of more than 30% of the equity interest and voting power in Family Doctor since June 2015 and thus have become our group of Controlling Shareholders on the following basis:

- (a) Mr. Liang, Mr. Lu and Ms. Su have been the ultimate equity holders controlling the exercise of more than 30% of the equity interest and voting power in Family Doctor since June 2015 (albeit through Shenzhen Zhongjin (holding equity interest on trust for Mr. Liang), Yujiang Yingming Investment (held indirectly as to 99.90% by Mr. Lu) and Yujiang Chenghe Investment (held indirectly as to 100% by Ms. Su) at different times;
- (b) Mr. Liang, Mr. Lu and Ms. Su have had an understanding that they would vote in a coordinated manner on Family Doctor’s affairs (the “**Understanding**”) since 11 June 2015, as supported by the Second Acting-In-Concert Confirmation;
- (c) pursuant to the Understanding, since 11 June 2015, Mr. Liang, Mr. Lu and Ms. Su have reached consensus on key decisions and had unanimous voting patterns on shareholders’ resolutions on key decisions at shareholders’ meetings, and therefore Mr. Liang, Mr. Lu and Ms. Su have consolidated their “management and control” and acted as a group;

HISTORY, REORGANIZATION AND GROUP STRUCTURE

- (d) pursuant to the Understanding and with reference to paragraph (c) above, no single largest equity holder (i.e. Mr. Liang) or single largest “group” of equity holders (i.e. Mr. Lu and Ms. Su) ever attempted to exercise his/their voting rights independently without the concurrence of the others; and
- (e) with reference to paragraphs (b) to (d) above, each of Mr. Liang, Mr. Lu and Ms. Su is a person acting in concert with each other in respect of the Company within the meaning of the Codes on Takeovers and Mergers and Share Buy-backs and will continue to act in concert with each other in the decision-making of our Group.

Pursuant to an equity transfer agreement entered into between Mr. Lu and Yujiang Yingming Investment, which is indirectly owned as to 0.1% by Ms. He (being Mr. Lu’s spouse) and 99.9% by Mr. Lu, on 20 November 2015, Mr. Lu transferred his 25% equity interest in Family Doctor to Yujiang Yingming Investment. The aforesaid transfer was registered by the competent PRC government authority on 9 December 2015. Despite Ms. He only indirectly holds 0.1% equity interest in Yujiang Yingming Investment, which holds 25% equity interest in Family Doctor, and is not a party to the Understanding, she is regarded as a Controlling Shareholder as the spouse of Mr. Lu pursuant to Guidance Letter HKEx-GL89-16 of the Stock Exchange. Accordingly, Mr. Liang, Mr. Lu, Ms. He (as Mr. Lu’s spouse) and Ms. Su have formed a group of equity holders controlling the exercise of more than 30% of the equity interest and voting power in Family Doctor, and thus have become our group of Controlling Shareholders since 9 December 2015.

Taking into account the legality and validity of the trust arrangements between Mr. Liang and Shenzhen Zhongjin in relation to Mr. Liang’s beneficial equity interests in Family Doctor since 11 June 2015, as confirmed by our PRC Legal Advisers and as (i) Mr. Liang, Mr. Lu and Ms. Su have formed a group of equity holders controlling the exercise of more than 30% of the equity interest and voting power in Family Doctor since 11 June 2015 (with the addition of Ms. He (as Mr. Lu’s spouse) in December 2015); (ii) the group of equity holders controlling the exercise of more than 30% of the equity interest and voting power in Family Doctor has not changed since 11 June 2015 (save for the addition of Ms. He (as Mr. Lu’s spouse) in December 2015); (iii) there has been no material changes in the voting interests in Family Doctor held by each of our Controlling Shareholders since 1 January 2018, being the beginning of the most recent audited financial year, and in our Company held by each of our Controlling Shareholders since the incorporation of our Company; and (iv) Mr. Liang, Mr. Lu, Ms. He (as Mr. Lu’s spouse) and Ms. Su have remained the group of equity holders controlling the exercise of more than 30% of the equity interest and voting power in Family Doctor since 1 January 2018, being the beginning of the most recent audited financial year, and our group of Controlling Shareholders controlling the exercise of more than 30% of the shareholding and voting power in our Company since the incorporation of our Company, Family Doctor satisfies the ownership continuity and control requirement pursuant to Listing Rule 8.05(1).

HISTORY, REORGANIZATION AND GROUP STRUCTURE

Immediately following completion of the Global Offering and Capitalization Issue (without taking into account any Share which may be issued upon exercise of the Over-allotment Option), Mr. Liang, Mr. Lu, Ms. He (as Mr. Lu's spouse) and Ms. Su, through their respective intermediate holding companies, will together control more than 30% of the issued share capital of our Company, and control more than 30% of the equity interest in Guangzhou Jiu Zun, which holds 93% of the equity interest in Family Doctor. Please see the section headed "Relationship with our Controlling Shareholders" for details.

PRE-IPO INVESTMENT

Overview

On 28 May 2018, our Company, AE Majoris Tech and AEM PIPO entered into the Subscription Agreement pursuant to which AE Majoris Tech and AEM PIPO agreed to subscribe for the zero coupon convertible bonds issued by our Company in the aggregate principal amount of HK\$19,000,000 and the issuance of the Pre-IPO Convertible Bonds by our Company to AEM PIPO and AE Majoris Tech was completed on 29 May 2018. On 20 December 2019, our Company entered into the Supplemental Deed pursuant to which the maturity date of the Pre-IPO Convertible Bonds was extended to 30 June 2020 and the redemption condition of the Pre-IPO Convertible Bonds in respect of our Company's failure to achieve the Listing by a certain date was amended to extend such listing date to 30 June 2020.

Upon full conversion of the Pre-IPO Convertible Bonds immediately before the Capitalization Issue and the Global Offering, AE Majoris Tech and AEM PIPO will be issued 4,280 and 2,710 Shares, representing 4.00% and 2.53%, respectively, of the entire issued share capital of our Company immediately before the completion of the Global Offering and Capitalization Issue (without taking into account any Share which may be issued upon exercise of the Over-allotment Option).

The following table summarizes the key terms of the pre-IPO investment (the "**Pre-IPO Investment**") made by AE Majoris Tech and AEM PIPO in our Company by way of the Pre-IPO Convertible Bonds.

Investor	(1) AE Majoris Tech
	(2) AEM PIPO
Date of investment agreement	28 May 2018
Amount of investment	HK\$19,000,000
Settlement date of investment amount	29 May 2018
Investment cost per Share⁽¹⁾	approximately HK\$0.69

HISTORY, REORGANIZATION AND GROUP STRUCTURE

Discount to the Offer Price⁽²⁾	58.0%
Use of proceeds from the pre-IPO investment	As at the Latest Practicable Date, approximately HK\$19,000,000 out of the net proceeds from the Pre-IPO Investment by AEM PIPO and AE Majoris Tech had been used for settling fees in relation to the preparation of the Listing.
Benefits from the pre-IPO investment	Our Directors believe that the pre-IPO investors will bring strategic benefits to our Group by providing financing and strategic advice to our Group's businesses. Our Company considers that by introducing the pre-IPO investors as additional Shareholders, our Company would benefit from the insights and management experience of the ultimate shareholders of the pre-IPO investors.
Approximate shareholding in our Company immediately upon Listing	<p>(1) AE Majoris Tech — 3.07%</p> <p>(2) AEM PIPO — 1.95%</p>

Notes:

- (1) Based on a total of 27,439,948 Shares, being the aggregate number of Shares held by the pre-IPO investors immediately upon completion of the Capitalization Issue and the Global Offering (without taking into account any Shares which may be allotted and issued upon any exercise of the Over-allotment Option).
- (2) Based on the Offer Price of HK\$1.65 per Share (being the mid-point of the indicative Offer Price range).

AE Majoris Tech is a company incorporated in the BVI and is principally engaged in technology investment. AE Majoris Tech is owned as to 86.67% and 13.33% by Mr. Tsui, and Mr. Jim Rogers, co-founder of the Quantum Fund and Soros Fund Management, and creator of the Rogers International Commodities Index, and his spouse Ms. Paige Parker collectively, respectively. Mr. Tsui is a non-executive Director and our company secretary. AEM PIPO is an investment fund incorporated in the Cayman Islands owned by various investors who are Independent Third Parties. The investment manager of AEM PIPO is AEM Asset Management Limited, of which our non-executive Director Mr. Tsui holds a non-controlling interest for the purpose of Part XV of the Securities and Futures Ordinance. Save as disclosed in this prospectus and the corporate advisory services provided by a company wholly owned by Mr. Tsui to Family Doctor before the Listing, to the best knowledge of our Directors, AE Majoris Tech, AEM PIPO and their respective beneficial owners do not have any other relationship, whether present or past, with our Group, the Shareholders, our Directors, the senior management of our Group, any connected persons of our Company, any of their

HISTORY, REORGANIZATION AND GROUP STRUCTURE

respective associates and they had been Independent Third Parties before their investment in our Group. The Pre-IPO Investment by AE Majoris Tech and AEM PIPO as stated above was not financed directly or indirectly by any connected persons of our Company.

Save as disclosed in this prospectus, there is no special right granted to AE Majoris Tech and AEM PIPO in connection with their investments in our Group.

To the best of the knowledge of our Directors, the terms of the Pre-IPO Convertible Bonds were arrived at arm's length negotiation between our Company and AE Majoris Tech and AEM PIPO. The following table sets forth a summary of the material terms of the Pre-IPO Investment:

Date of the Subscription Agreement	:	28 May 2018
Aggregate principal amount	:	HK\$19,000,000
Convertible bond issuer	:	Our Company
Convertible bond subscriber	:	(1) AE Majoris Tech (2) AEM PIPO
Interest rate	:	No interest
Maturity Date	:	30 June 2020 (“ Maturity Date ”), such date which may be extended, at the election of AE Majoris Tech and AEM PIPO, to a date as agreed upon by our Company and AE Majoris Tech and AEM PIPO upon delivery of a written notice by AE Majoris Tech and AEM PIPO to our Company not less than 30 calendar days in advance (“ Extended Maturity Date ”)
Transferability	:	Non-transferable

HISTORY, REORGANIZATION AND GROUP STRUCTURE

- Conversion** : AE Majoris Tech and AEM PIPO may each exercise the right to convert all but not part of its respective Pre-IPO Convertible Bonds into Shares (“**Conversion Right**”) at any time during the term of the Pre-IPO Convertible Bonds and prior to the Maturity Date or, as the case may be, the Extended Maturity Date, by serving a conversion notice during normal business hours at our Company’s office (“**Conversion Date**”), provided that the Conversion Right shall be exercised in full:
- (i) if the Listing occurs prior to the Maturity Date, on or immediately prior to the Listing Date;
 - (ii) if the Pre-IPO Convertible Bonds are required to be converted by the laws, rules or regulations in Hong Kong or the Listing Rules (“**Laws**”) or by the Stock Exchange’s written request prior to the Listing Date, on the date as required by the Laws or requested by the Stock Exchange or otherwise as agreed upon by our Company and each of AE Majoris Tech and AEM PIPO;
 - (iii) if agreed by AE Majoris Tech and AEM PIPO and our Company that due to the changes of the Laws or of HKFRSs, continuing to hold the Pre-IPO Convertible Bonds will have a negative impact on the Listing, on the date agreed upon by our Company and AE Majoris Tech and AEM PIPO
- Redemption** : Our Company shall, at the election of AE Majoris Tech and/or AEM PIPO, redeem on the fifth Business Day after the deposition of a purchase notice at our Company’s office all of the Pre-IPO Convertible Bonds at its principal amount if (i) the Listing is rejected based on a written notice by the SFC or the Stock Exchange; (ii) our Company confirms by a written notice that it has aborted the Listing; or (iii) our Company fails to achieve a Listing by 30 June 2020.
- Lock-up:** : The Shares under the Pre-IPO Convertible Bonds are subject to a lock-up period of 6 months from the Listing Date.

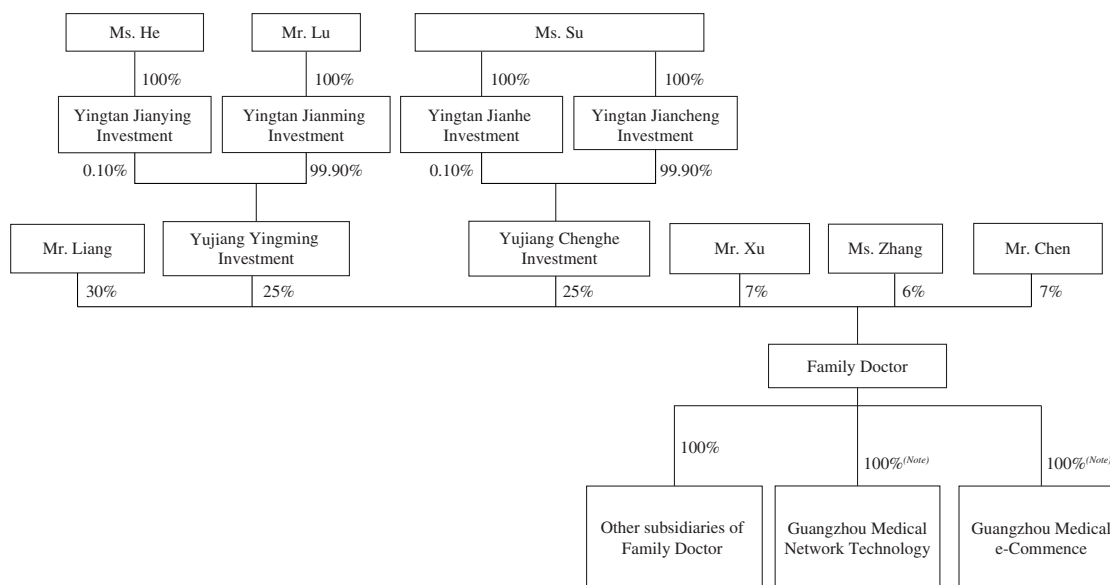
HISTORY, REORGANIZATION AND GROUP STRUCTURE

Public float : As AE Majoris Tech is owned as to 86.67% by Mr. Tsui, a connected person of the Company, its shareholding in our Company will not be counted as part of the public float for the purposes of Rule 8.08(1)(a) of the Listing Rules. AEM PIPO is an Independent Third Party and therefore its shareholding in our Company will be considered as part of the public float for the purposes of Rule 8.08(1)(a) of the Listing Rules.

Since the subscription money for the Pre-IPO Convertible Bonds was fully settled on 29 May 2018, which was more than 28 clear days before the date of submission of the initial listing application, the Sole Sponsor is of the view that the issue of the Pre-IPO Convertible Bonds is in compliance with the Guidance Letters HKEx-GL29-12 (updated in March 2017), HKEx-GL43-12 (updated in July 2013 and March 2017) and HKEx-GL44-12 (updated in March 2017) of the Stock Exchange.

CORPORATE REORGANIZATION

In preparation for the Global Offering and in order to streamline our corporate structure, we underwent the Reorganization. The following chart sets forth the corporate and beneficial ownership structure of our Group immediately before the Reorganization.



Note: Pursuant to an entrusted equity interest agreement entered into between Family Doctor and Mr. Chen Chen (陳辰先生) on 5 December 2014, Mr. Chen held 17% equity interest of each of Guangzhou Medical Network Technology and Guangzhou Medical e-Commerce on behalf of Family Doctor. Pursuant to an entrusted equity interest agreement entered into between Family Doctor and each of Mr. Xiang Qun (向群先生), Mr. Xing Jianfei (邢劍飛先生) and Mr. Liang Jiankun (梁劍坤先生) on 1 December 2014, respectively, Mr. Xiang, Mr. Xing and Mr. Liang Jiankun held 17%, 10% and 5% equity interest of each of Guangzhou Medical Network Technology and Guangzhou Medical e-Commerce respectively.

HISTORY, REORGANIZATION AND GROUP STRUCTURE

(1) Incorporation of our Company

Our Company was incorporated under the laws of the Cayman Islands as an exempted company with limited liability on 5 February 2018 with an initial authorized share capital of HK\$390,000 divided into 39,000,000 shares of HK\$0.01 each. On the date of its incorporation, 32,258 shares, 26,882 shares, 26,882 shares, 7,527 shares and 6,451 shares were allotted and issued at par, credited as fully paid, to each of JL, LJHJH, WS, DW and LTZL, respectively, representing 32.26%, 26.88%, 26.88%, 7.53% and 6.45% shareholding of our Company.

On 24 May 2018, JL, LJHJH, WS, DW and LTZL transferred their respective shareholding in our Company to JLCY SAGA, LJHJH SAGA, WW SAGA, DW SAGA and LTZL SAGA at a consideration of HK\$1.00, HK\$1.00, HK\$1.00, HK\$1.00 and HK\$1.00 respectively. Upon completion of the share transfer, our Company was owned as to approximately 32.26%, 26.88%, 26.88%, 7.53% and 6.45% by JLCY SAGA, LJHJH SAGA, WW SAGA, DW SAGA and LTZL SAGA, respectively.

(2) Incorporation of Emperor Interactive Entertainment

Emperor Interactive Entertainment was incorporated under the laws of the BVI with limited liability on 11 January 2018 with an initial authorized share capital of USD50,000 divided into 50,000 shares of USD1.00 each. On 7 May 2018, 1 share of Emperor Interactive Entertainment was allotted and issued at par, credited as fully paid, to our Company. Our Company has been the only shareholder of Emperor Interactive Entertainment since its incorporation. Emperor Interactive Entertainment has been a wholly-owned subsidiary of our Company since 7 May 2018 and serves as an intermediate holding company of our Group.

(3) Incorporation of Jiu Zun Hu Yu

Jiu Zun Hu Yu was incorporated under the laws of Hong Kong with limited liability on 27 February 2018, the share capital of which is in the total amount of HK\$1.00 with 1 issued ordinary share by Mr. Lu. On 24 May 2018, as part of the Reorganization, Mr. Lu transferred the entire equity interest in Jiu Zun Hu Yu to Emperor Interactive Entertainment for a consideration of HK\$1.00. Jiu Zun Hu Yu serves as an intermediate holding company of our Group.

(4) Establishment of WFOE

WFOE was established under the laws of the PRC as a limited liability company on 31 May 2018 with an initial registered capital of RMB1,000,000. WFOE has been a wholly-owned subsidiary of Jiu Zun Hu Yu since its establishment and serves as an intermediate holding company of our Group.

(5) Disposal of subsidiaries of Family Doctor with no business activity

(a) Guangzhou Medical Network Technology

Guangzhou Medical Network Technology has not commenced any business activity since its establishment on 9 December 2014 but was originally established for the development of e-commerce business.

For our Group to focus on businesses of mobile game development and operation and digital media content distribution, on 10 October 2017, pursuant to the equity interest transfer and capital contribution agreement entered into between Family Doctor, Mr. Liang Jiankun (梁劍坤先生), Mr. Xing Jianfei (邢劍飛先生), Mr. Xiang Qun (向群先生) and Mr. Chen Chen (陳辰先生) as transferor, and Ms. Li Liqing (李麗清女士) and Ms. Lv Lingling (呂玲玲女士) as transferees, Family Doctor transferred its 51% equity interest in Guangzhou Medical Network Technology to Ms. Lv Lingling (呂玲玲女士) for a consideration of RMB252,166.44, the consideration of which was determined with reference to the net asset value of Guangzhou Medical Network Technology; and each of Mr. Chen Chen (陳辰先生), Mr. Xiang Qun (向群先生), Mr. Xing Jianfei (邢劍飛先生) and Mr. Liang Jiankun (梁劍坤先生) transferred their respective equity interest held on trust for Family Doctor in Guangzhou Medical Network Technology, in the aggregate of 49%, to Ms. Li Liqing (李麗清女士) for a consideration of RMB84,055.48, RMB84,055.48, RMB49,444.40 and RMB24,722.21, respectively, the consideration of which were determined with reference to the net asset value of Guangzhou Medical Network Technology, with an aggregate consideration of RMB242,277.57. The registration of change of equity interest was approved by the Guangzhou Baiyun District Administration for Industry and Commerce on 2 November 2017.

(b) Guangzhou Medical e-Commerce

Guangzhou Medical e-Commerce has not commenced any business activity since its establishment on 4 December 2014 but was originally established for the development of e-commerce business.

For our Group to focus on businesses of mobile game development and operation and digital media content distribution, on 30 September 2017, pursuant to the equity interest transfer and capital contribution agreement entered into between Family Doctor, Mr. Liang Jiankun (梁劍坤先生), Mr. Xing Jianfei (邢劍飛先生), Mr. Xiang Qun (向群先生) and Mr. Chen Chen (陳辰先生) as transferors, and Ms. Li Liqing (李麗清女士) and Mr. Yu Benyuan (余本元先生) as transferees, Family Doctor transferred its 51% equity interest in Guangzhou Medical e-Commerce to Mr. Yu Benyuan (余本元先生) for a consideration of RMB29,433.58, the consideration of which was determined with reference to the net asset value of Guangzhou Medical e-Commerce; and each of Mr. Chen Chen (陳辰先生), Mr. Xiang Qun (向群先生), Mr. Xing Jianfei (邢劍飛先生) and Mr. Liang Jiankun (梁劍坤先生) transferred their respective equity interest held on trust for Family Doctor in Guangzhou Medical e-Commerce, in the aggregate of 49%, to Ms.

HISTORY, REORGANIZATION AND GROUP STRUCTURE

Li Liqing (李麗清女士) for a consideration of RMB9,811.19, RMB9,811.19, RMB5,771.3 and RMB2,885.65, respectively, the consideration of which was determined with reference to the net asset value of Guangzhou Medical e-Commerce, with an aggregate consideration of RMB28,279.33. The registration of change of equity interest was approved by the Guangzhou Baiyun District Administration for Industry and Commerce on 30 October 2017.

(6) Establishment of Guangzhou Jiu Zun and transfer of equity interest in Family Doctor

Guangzhou Jiu Zun was established under the laws of the PRC as a limited liability company on 13 April 2018 with an initial registered capital of RMB9,300,000 by Mr. Liang, Yujiang Yingming Investment, Yujiang Chenghe Investment, Mr. Xu and Ms. Zhang as to 32.26%, 26.88%, 26.88%, 7.53% and 6.45% equity interest, respectively.

On 28 April 2018, each of Mr. Liang, Yujiang Yingming Investment, Yujiang Chenghe Investment, Mr. Xu and Ms. Zhang transferred their respective equity interest of 30%, 25%, 25%, 7% and 6%, being an aggregate of 93% of the equity interest, in Family Doctor to Guangzhou Jiu Zun for a consideration of RMB3,000,000, RMB2,500,000, RMB2,500,000, RMB700,000 and RMB600,000, respectively, the consideration of which was determined with reference to the registered share capital of Family Doctor, pursuant to an equity transfer agreement between the Relevant Shareholders and Guangzhou Jiu Zun. The aforesaid transfer was registered by the competent PRC government authority on 4 May 2018. As advised by our PRC Legal Advisers, the above transfer was properly and legally completed and settled and all necessary approvals from the relevant PRC authorities have been obtained. Upon the completion of the aforesaid transfers, Family Doctor was owned as to 93% by Guangzhou Jiu Zun and 7% by the late Mr. Chen.

The aforesaid consolidation of 93% equity interest in Family Doctor to Guangzhou Jiu Zun was carried out as the late Mr. Chen had passed away with his estate pending probate in the PRC and thus the 7% equity interest in Family Doctor could not be brought under the Contractual Arrangements. The Contractual Arrangements have been entered into between WFOE, Guangzhou Jiu Zun and its registered shareholders to consolidate 93% of the economic benefits, and thus financial results, of Family Doctor and its subsidiaries into our Group.

Guangzhou Jiu Zun was established for the purpose of consolidating the 93% equity interests in Family Doctor. It currently holds an OCO Licence for conducting our businesses.

Our PRC Legal Advisers has confirmed that the registered capital of Family Doctor has been fully paid up.

(7) Introduction of pre-IPO investors

On 28 May 2018, our Company, AE Majoris Tech and AEM PIPO entered into the Subscription Agreement pursuant to which AE Majoris Tech and AEM PIPO agreed to

HISTORY, REORGANIZATION AND GROUP STRUCTURE

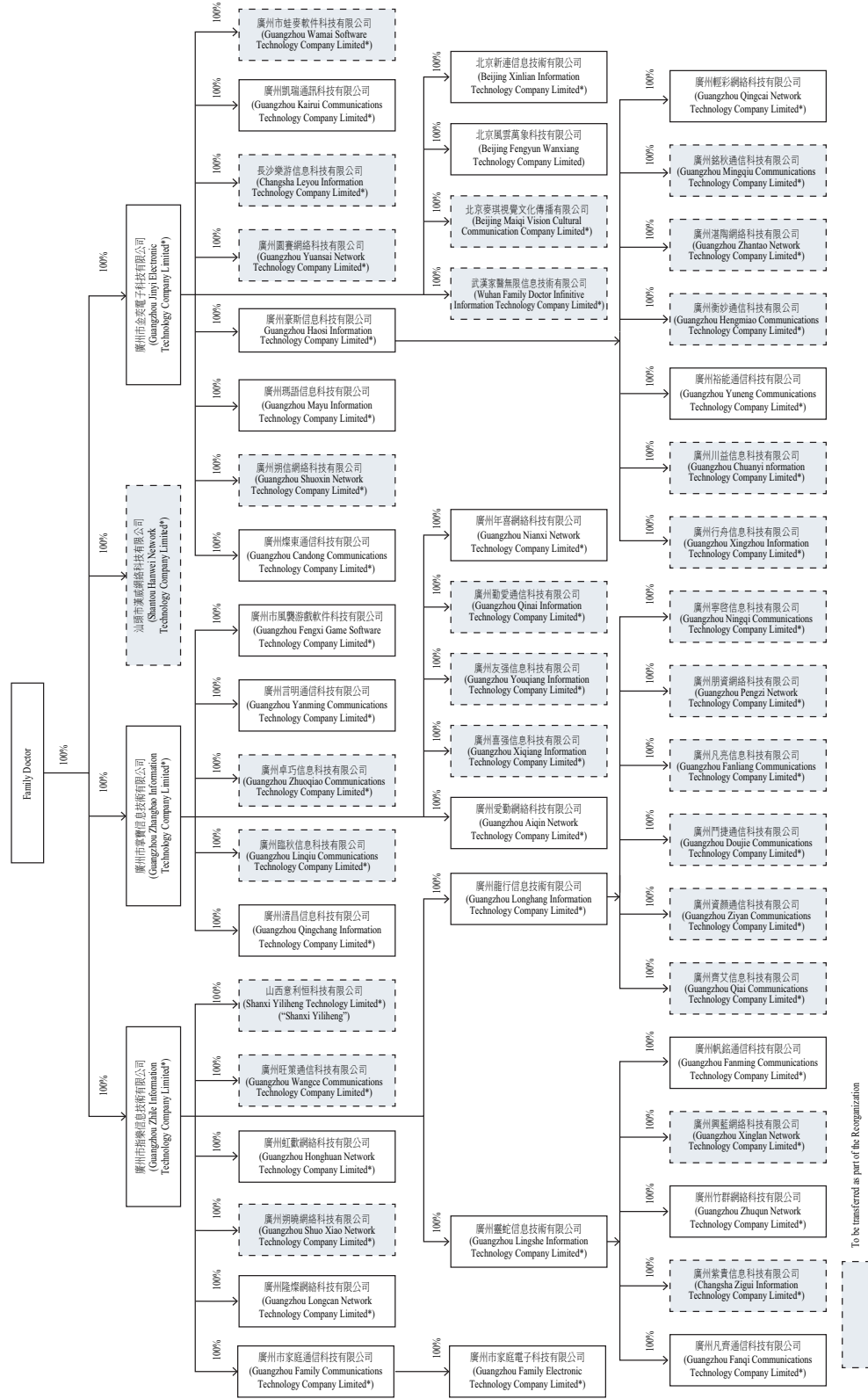
subscribe for the zero coupon convertible bonds issued by our Company in the aggregate principal amount of HK\$19,000,000. The issuance of the Pre-IPO Convertible Bonds by our Company to AEM PIPO and AE Majoris Tech was completed on 29 May 2018. On 20 December 2019, our Company entered into the Supplemental Deed pursuant to which the maturity date of the Pre-IPO Convertible Bonds was extended to 30 June 2020 and the redemption condition of the Pre-IPO Convertible Bonds in respect of our Company's failure to achieve the Listing by a certain date was amended to extend such listing date to 30 June 2020.

Upon full conversion of the Pre-IPO Convertible Bonds immediately before the Capitalization Issue and the Global Offering, AE Majoris Tech and AEM PIPO will be issued 4,280 and 2,710 Shares, representing 4.00% and 2.53% of the entire issued share capital of our Company immediately before the completion of the Global Offering and Capitalization Issue (without taking into account any Share which may be issued upon exercise of the Over-allotment Option).

Please see the paragraph headed "Pre-IPO Investment" of this section for further details regarding the pre-IPO investment of AE Majoris Tech and AEM PIPO.

(8) Restructuring of our non-restricted and/or non-prohibited businesses

Prior to the Reorganization, excluding Guangzhou Medical Network Technology and Guangzhou Medical e-Commerce originally established for business activity not in line with our businesses, Family Doctor held a total of 53 subsidiaries, as illustrated by the following shareholding structure chart.



To be transferred as part of the Reorganization

HISTORY, REORGANIZATION AND GROUP STRUCTURE

As part of the Reorganization, the equity interest in 28 directly or indirectly wholly-owned subsidiaries of Family Doctor (the “**28 Subsidiaries**”) which were no longer involved in our businesses and not subject to any foreign investment restriction or prohibition were transferred by our Consolidated Affiliated Entities to each of Mr. Liang, Mr. Lu and Ms. Su as to 37.5%, 31.25% and 31.25%, respectively, pursuant to the transfer of shareholders and capital contribution agreement entered into between the relevant Consolidated Affiliated Entities and each of Mr. Liang, Mr. Lu and Ms. Su, respectively, to ensure the Contractual Arrangements are narrowly tailored in accordance with the requirement of the Stock Exchange. Upon completion of the disposal of the 28 Subsidiaries, each of our Consolidated Affiliated Entities in the Group holds an OCO Licence and/or SP Licence (save for Guangzhou Yuneng Communications Technology Company Limited, Guangzhou Fanming Communications Technology Company Limited, Guangzhou Kairui Communications Technology Company Limited and Guangzhou Lingshe Information Technology Company Limited for which the OCO Licences have expired as of the Latest Practicable Date) for conducting our businesses which are subject to foreign investment restriction and prohibition.

The details of such transfers are set out as follows:

Subsidiaries of Family Doctor	Issued ordinary/registered share capital	Equity holder (as transferor) (percentage of equity interest)	Date of the transfer of equity interest and capital contribution agreement	Consideration for transfer (determined with reference to the net asset of the relevant subsidiary of Family Doctor as at 31 December 2018)	Date of registration of change of equity interest (as approved by Guangzhou Baiyun District Administration for Industry and Commerce)
汕頭市漢威網絡科技有限公司 (Shantou Hanwei Network Technology Company Limited*)	RMB1,000,000	Guangzhou Family Doctor Information Technology Company Limited (100%)	22 February 2019	RMB1,000,000	27 February 2019
廣州朔曉網絡科技有限公司 (Guangzhou Shuo Xiao Network Technology Company Limited*)	RMB1,000,000	廣州市指樂信息技術有限公司 (Guangzhou Zhile Information Technology Company Limited*) (100%)	18 February 2019	RMB965,945.16	19 February 2019
廣州旺策通信科技有限公司 (Guangzhou Wangce Communications Technology Company Limited*)	RMB1,000,000	廣州市指樂信息技術有限公司 (Guangzhou Zhile Information Technology Company Limited*) (100%)	18 February 2019	RMB1,014,885.79	19 February 2019
山西意利恒科技有限公司 (Shanxi Yiliheng Technology Limited*)	RMB1,100,000	廣州市指樂信息技術有限公司 (Guangzhou Zhile Information Technology Company Limited*) (100%)	22 February 2019	RMB1,100,000	27 February 2019

HISTORY, REORGANIZATION AND GROUP STRUCTURE

Subsidiaries of Family Doctor	Issued ordinary/registered share capital	Equity holder (as transferor) (percentage of equity interest)	Date of the transfer of equity interest and capital contribution agreement	Consideration for transfer (determined with reference to the net asset of the relevant subsidiary of Family Doctor as at 31 December 2018)	Date of registration of change of equity interest (as approved by Guangzhou Baiyun District Administration for Industry and Commerce)
廣州臨欣信息科技有限公司 (Guangzhou Linqiu Communications Technology Company Limited*)	RMB1,000,000	廣州市掌寶信息技術有限公司 (Guangzhou Zhangbao Information Technology Company Limited*) (100%)	21 February 2019	RMB964,846.84	25 February 2019
廣州卓巧信息科技有限公司 (Guangzhou Zhuoqiao Communications Technology Company Limited*)	RMB1,000,000	廣州市掌寶信息技術有限公司 (Guangzhou Zhangbao Information Technology Company Limited*) (100%)	20 February 2019	RMB1,038,956.67	21 February 2019
廣州朔信網絡科技有限公司 (Guangzhou Shuoxin Network Technology Company Limited*)	RMB1,000,000	廣州市金奕電子科技有限公司 (Guangzhou Jinyi Electronic Technology Company Limited*) (100%)	20 February 2019	RMB1,022,748.01	25 February 2019
廣州園賽網絡科技有限公司 (Guangzhou Yuansai Network Technology Company Limited*)	RMB1,000,000	廣州市金奕電子科技有限公司 (Guangzhou Jinyi Electronic Technology Company Limited*) (100%)	3 February 2019	RMB1,031,438.71	13 February 2019
長沙樂游信息科技有限公司 (Changsha Leyou Information Technology Company Limited*)	RMB1,000,000	廣州市金奕電子科技有限公司 (Guangzhou Jinyi Electronic Technology Company Limited*) (100%)	22 February 2019	RMB1,017,700	27 February 2019
廣州市蛙麥軟件科技有限公司 (Guangzhou Wamai Software Technology Company Limited*)	RMB500,000	廣州市金奕電子科技有限公司 (Guangzhou Jinyi Electronic Technology Company Limited*) (100%)	22 February 2019	RMB459,052.11	26 February 2019
廣州喜強信息科技有限公司 (Guangzhou Xiqiang Information Technology Company Limited*)	RMB10,000,000	廣州市掌寶信息技術有限公司 (Guangzhou Zhangbao Information Technology Company Limited*) (100%)	19 February 2019	RMB9,977,019.57	21 February 2019

HISTORY, REORGANIZATION AND GROUP STRUCTURE

Subsidiaries of Family Doctor	Issued ordinary/registered share capital	Equity holder (as transferor) (percentage of equity interest)	Date of the transfer of equity interest and capital contribution agreement	Consideration for transfer (determined with reference to the net asset of the relevant subsidiary of Family Doctor as at 31 December 2018)	Date of registration of change of equity interest (as approved by Guangzhou Baiyun District Administration for Industry and Commerce)
廣州友強信息科技有限公司 (Guangzhou Youqiang Information Technology Company Limited*)	RMB10,000,000	廣州市掌寶信息技術有限公司 (Guangzhou Zhangbao Information Technology Company Limited*) (100%)	20 February 2019	RMB9,996,557.02	21 February 2019
廣州勤愛通信科技有限公司 (Guangzhou Qinai Information Technology Company Limited*)	RMB10,000,000	廣州市掌寶信息技術有限公司 (Guangzhou Zhangbao Information Technology Company Limited*) (100%)	21 February 2019	RMB10,014,329.42	25 February 2019
武漢家醫無限信息技術有限公司 (Wuhan Family Doctor Infinitive Information Technology Company Limited*)	RMB1,000,000	廣州市金奕電子科技有限公司 (Guangzhou Jinyi Electronic Technology Company Limited*) (100%)	22 February 2019	RMB1,000,000	26 February 2019
北京麥琪視覺文化傳播有限公司 (Beijing Maiqi Vision Cultural Communication Company Limited*)	RMB3,000,000	廣州市金奕電子科技有限公司 (Guangzhou Jinyi Electronic Technology Company Limited*) (100%)	22 February 2019	RMB300,000	26 February 2019
廣州紫貴信息科技有限公司 (Changsha Zigui Information Technology Company Limited*)	RMB300,000	廣州靈蛇信息技術有限公司 (Guangzhou Lingshe Information Technology Company Limited*) (100%)	20 February 2019	RMB1,032,839.06	25 February 2019
廣州興藍網絡科技有限公司 (Guangzhou Xinglan Network Technology Company Limited*)	RMB1,000,000	廣州靈蛇信息技術有限公司 (Guangzhou Lingshe Information Technology Company Limited*) (100%)	21 February 2019	RMB982,686.17	25 February 2019
廣州齊艾信息科技有限公司 (Guangzhou Qiai Communications Technology Company Limited*)	RMB1,000,000	廣州龍行信息技術有限公司 (Guangzhou Longhang Information Technology Company Limited*) (100%)	20 February 2019	RMB975,886.67	25 February 2019

HISTORY, REORGANIZATION AND GROUP STRUCTURE

Subsidiaries of Family Doctor	Issued ordinary/registered share capital	Equity holder (as transferor) (percentage of equity interest)	Date of the transfer of equity interest and capital contribution agreement	Consideration for transfer (determined with reference to the net asset of the relevant subsidiary of Family Doctor as at 31 December 2018)	Date of registration of change of equity interest (as approved by Guangzhou Baiyun District Administration for Industry and Commerce)
廣州資頻通信科技有限公司 (Guangzhou Ziyan Communications Technology Company Limited*)	RMB1,000,000	廣州龍行信息技術有限公司 (Guangzhou Longhang Information Technology Company Limited*) (100%)	20 February 2019	RMB972,150.20	25 February 2019
廣州門捷通信科技有限公司 (Guangzhou Doujie Communications Technology Company Limited*)	RMB1,000,000	廣州龍行信息技術有限公司 (Guangzhou Longhang Information Technology Company Limited*) (100%)	21 February 2019	RMB989,220.57	25 February 2019
廣州凡亮信息科技有限公司 (Guangzhou Fanliang Communications Technology Company Limited*)	RMB1,000,000	廣州龍行信息技術有限公司 (Guangzhou Longhang Information Technology Company Limited*) (100%)	21 February 2019	RMB977,306.38	25 February 2019
廣州朋資網絡科技有限公司 (Guangzhou Pengzi Network Technology Company Limited*)	RMB1,000,000	廣州龍行信息技術有限公司 (Guangzhou Longhang Information Technology Company Limited*) (100%)	21 February 2019	RMB975,638.64	25 February 2019
廣州寧啓信息科技有限公司 (Guangzhou Ningqi Communications Technology Company Limited*)	RMB1,000,000	廣州龍行信息技術有限公司 (Guangzhou Longhang Information Technology Company Limited*) (100%)	20 February 2019	RMB999,707.31	25 February 2019
廣州行舟信息科技有限公司 (Guangzhou Xingzhou Information Technology Company Limited*)	RMB1,000,000	廣州豪斯信息科技有限公司 Guangzhou Haosi Information Technology Company Limited*) (100%)	21 February 2019	RMB1,046,822.00	25 February 2019
廣州川益信息科技有限公司 (Guangzhou Chuanyi Information Technology Company Limited*)	RMB1,000,000	廣州豪斯信息科技有限公司 Guangzhou Haosi Information Technology Company Limited*) (100%)	22 February 2019	RMB1,020,198.66	26 February 2019

HISTORY, REORGANIZATION AND GROUP STRUCTURE

Subsidiaries of Family Doctor	Issued ordinary/registered share capital	Equity holder (as transferor) (percentage of equity interest)	Date of the transfer of equity interest and capital contribution agreement	Consideration for transfer (determined with reference to the net asset of the relevant subsidiary of Family Doctor as at 31 December 2018)	Date of registration of change of equity interest (as approved by Guangzhou Baiyun District Administration for Industry and Commerce)
廣州衡妙通信科技有限公司 (Guangzhou Hengmiao Communications Technology Company Limited*)	RMB1,000,000	廣州豪斯信息科技有限公司 Guangzhou Haosi Information Technology Company Limited*) (100%)	22 February 2019	RMB1,000,093.27	26 February 2019
廣州湛陶網絡科技有限公司 (Guangzhou Zhantao Network Technology Company Limited*)	RMB1,000,000	廣州豪斯信息科技有限公司 Guangzhou Haosi Information Technology Company Limited*) (100%)	22 February 2019	RMB977,903.32	26 February 2019
廣州銘秋通信科技有限公司 (Guangzhou Mingqiu Communications Technology Company Limited*)	RMB1,000,000	廣州豪斯信息科技有限公司 Guangzhou Haosi Information Technology Company Limited*) (100%)	22 February 2019	RMB1,021,324.63	26 February 2019

Pursuant to the transferees' undertakings dated 23 February 2019, each of Mr. Liang, Mr. Lu and Ms. Su has undertaken that:

- (i) he/she will unconditionally, within ten Business Days upon the completion date of the registration of the change of equity interest as approved by the competent administration for industry and commerce, change the business scope of each of the 28 Subsidiaries by way of shareholders' meeting minutes or resolutions, amending the article of associations of the 28 Subsidiaries and completing registration with the relevant administration for industry and commerce, to ensure that the business scope of the 28 Subsidiaries will not overlap with the business scope of our Group; and
- (ii) he/she will not, with his/her control of the 28 Subsidiaries, be involved in any act to the detriment of our Group and he/she will respect and guarantee the independent operation and decisions of our Group, and he/she will not engage those companies that are controlled by him/her, including the 28 Subsidiaries, in conducting business or activities that have direct or indirect competition with our Group and he/she will not conduct any business or be involved in any activities that will affect the business opportunities of our Group.

As explained under paragraphs headed "Our Group Structure and Historical Trust Arrangements — Measures adopted by Family Doctor" in this section, most of the 28 Subsidiaries were established and/or acquired by Family Doctor or its subsidiaries in anticipation of the implementation of the Policies. During the Track Record Period, we

HISTORY, REORGANIZATION AND GROUP STRUCTURE

maintained the 28 Subsidiaries in the Group for entering into agreements with settlement agents and/or distribution channel providers for our mobile games and for Family Doctor to operate mobile games through to facilitate risk allocation purposes as set out in paragraphs headed “Our Group Structure and Historical Trust Arrangements — Measures adopted by Family Doctor” in this section. In order to ensure that the Contractual Arrangements are narrowly tailored in accordance with the requirement of the Stock Exchange to facilitate the Listing, as part of the Reorganization, we decided not to operate mobile games through the 28 Subsidiaries, which did not have OCO Licence and/or SP Licence and were not subject to foreign investment restriction and prohibition, and disposed them out of our Group. As advised by our PRC Legal Advisers, the 28 Subsidiaries were not required under any PRC laws and regulations to obtain OCO Licence and/or SP Licence for the purpose of entering into agreements with settlement agents and/or distribution channel providers for our mobile games. In addition, as entities through which Family Doctor could operate mobile games, the 28 Subsidiaries were not required under any PRC laws and regulations to obtain OCO Licence and/or SP Licence.

The net profit/(loss) generated by the 28 Subsidiaries during the Track Record Period (which has been consolidated into the consolidated financial statements of our Group) is as follows:

	FY 2016	FY 2017	FY 2018	9M2018	9M2019
	<i>Approximate</i>	<i>Approximate</i>	<i>Approximate</i>	<i>Approximate</i>	<i>Approximate</i>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Net profit/(loss)	(2,800)	194	6,400	6,433	0.5

As advised by our PRC Legal Advisers, since the commencement of the Track Record Period up to 27 February 2019 (being the last date of disposal of the 28 subsidiaries from our Group), the 28 Subsidiaries had complied with all applicable PRC laws and regulations, and were not a party to any material legal, arbitral or administrative proceedings, investigations or claims.

(9) Contractual Arrangements to control our Consolidated Affiliated Entities

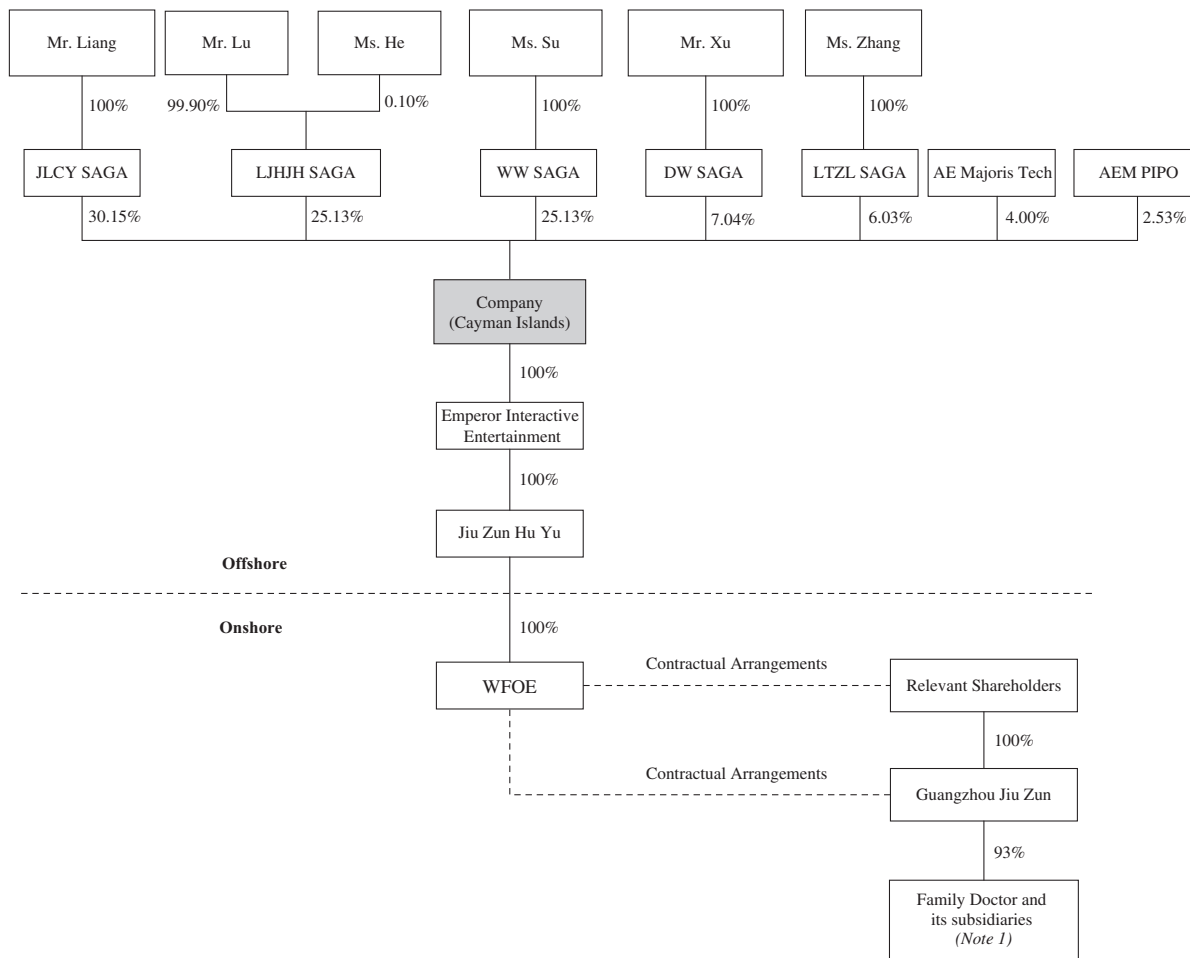
On 23 February 2019, WFOE entered into various agreements that constitute the Contractual Arrangements with Guangzhou Jiu Zun, which holds 93% of the equity interest in Family Doctor, and its registered shareholders, under which 93% of the economic benefits arising from the businesses of our Consolidated Affiliated Entities are controlled and enjoyed by WFOE to the extent permitted by the PRC laws and regulations.

Please see the section headed “Contractual Arrangements” for further details on the Contractual Arrangements.

HISTORY, REORGANIZATION AND GROUP STRUCTURE

CORPORATE AND SHAREHOLDING STRUCTURE OF OUR GROUP AFTER COMPLETION OF THE REORGANIZATION

Upon completion of the Reorganization, our Company became the holding company of our Group in anticipation of the Capitalization Issue and Global Offering. The following chart sets out the corporate structure of our Group after completion of the Reorganization and before completion of the Capitalization Issue and Global Offering (without taking into account any Shares which may be allotted and issued upon any exercise of the Over-allotment Option) assuming the Pre-IPO Convertible Bonds have been fully converted:



Notes:

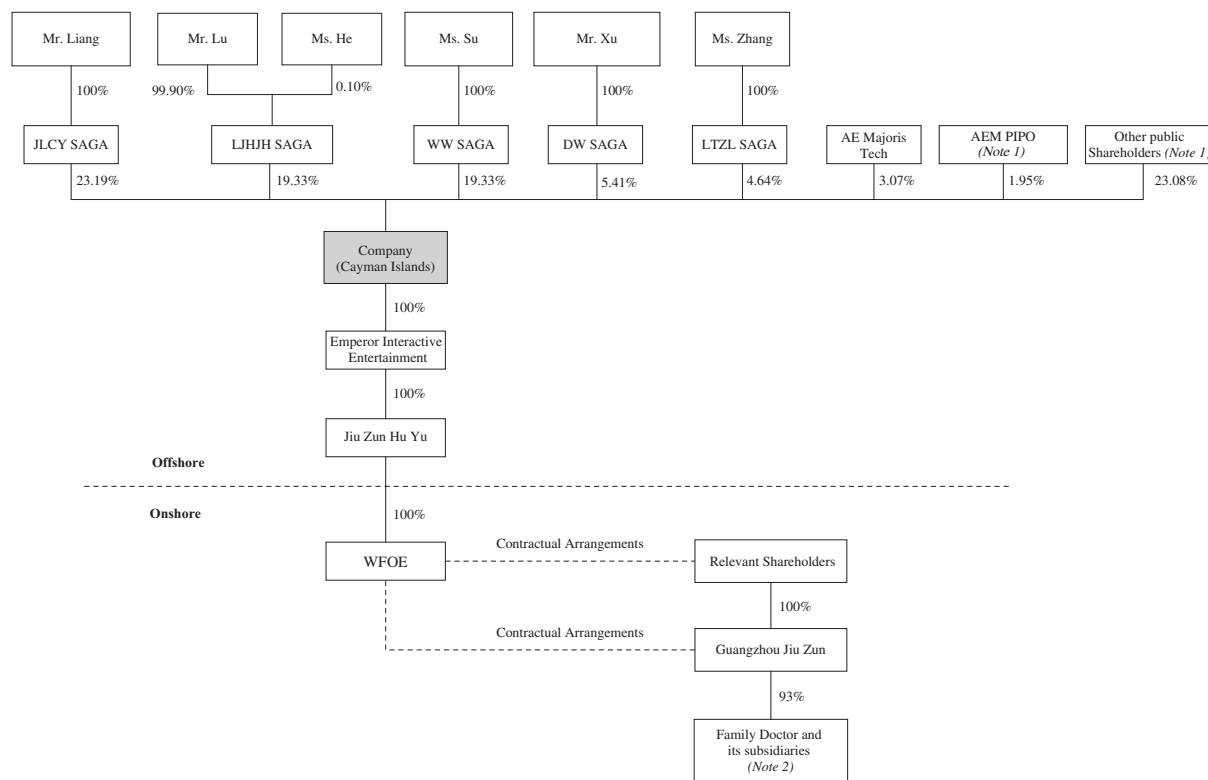
- (1) Family Doctor is owned as to 93% by Guangzhou Jiu Zun. WFOE has entered into the Contractual Arrangements with Guangzhou Jiu Zun and its registered shareholders to consolidate 93% of the economic benefits, and thus financial results, of Family Doctor and its subsidiaries.
- (2) “—” denotes direct legal and beneficial ownership in the equity interest and “---” denotes contractual relationship.

HISTORY, REORGANIZATION AND GROUP STRUCTURE

CORPORATE AND SHAREHOLDING STRUCTURE OF OUR GROUP UPON COMPLETION OF THE REORGANIZATION, THE CAPITALIZATION ISSUE AND THE GLOBAL OFFERING

Conditional upon the share premium account of our Company being credited as a result of the Global Offering, our Company will capitalize all or a portion, as the case may be, of the balance of the share premium account and apply such sum in paying up in full at nominal value a total of 419,893,010 Shares, for allotment and issue to the existing shareholders of our Company.

Immediately after the Global Offering and Capitalization Issue (without taking into account any Shares which may be issued upon exercise of the Over-allotment Option), the existing shareholders of our Company and public holders of Shares (excluding AEM PIPO) will hold approximately 76.92% and 23.08%, respectively, of the enlarged issued share capital of our Company. The following chart sets forth the corporate and shareholding structure of our Group immediately following completion of the Global Offering and Capitalization Issue (without taking into account any Shares which may be issued upon exercise of the Over-allotment Option) assuming the Pre-IPO Convertible Bonds have been fully converted:



Notes:

- (1) AEM PIPO is an Independent Third Party and its shareholding in the Company will be counted as part of the public float.

HISTORY, REORGANIZATION AND GROUP STRUCTURE

- (2) Family Doctor is owned as to 93% by Guangzhou Jiu Zun. WFOE has entered into the Contractual Arrangements with Guangzhou Jiu Zun and its registered shareholders to consolidate 93% of the economic benefits, and thus financial results, of Family Doctor and its subsidiaries.
- (3) “—” denotes direct legal and beneficial ownership in the equity interest and “---” denotes contractual relationship.

CHINESE REGULATORY REQUIREMENTS

In relation to all the transfers of equity interests, investments and changes in registered capital in the WFOE and our Consolidated Affiliated Entities established in the PRC as described in this section, our PRC Legal Advisers confirm that all necessary regulatory approvals from the PRC government authorities have been obtained and all relevant PRC laws and regulations have been complied with.

THE RULES ON THE MERGERS AND ACQUISITIONS OF DOMESTIC ENTERPRISES BY FOREIGN INVESTORS IN CHINA

According to the Regulations on 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 the MOFCOM, the State-owned Assets Supervision and Administration Commission of the State Council, the SAT, the CSRC, the SAIC and the SAFE on 8 August 2006, effective as of 8 September 2006 and amended on 22 June 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, especially in the event that the special purpose vehicle acquires shares of or equity interests in the PRC companies in exchange for the shares of offshore companies.

Our PRC Legal Advisers are of the opinion that prior CSRC approval for this offering is not required because (i) WFOE was incorporated as wholly foreign-owned enterprise without involving acquisition of the equity or assets of a “**PRC domestic company**” (as such term is defined under the M&A Rules), which was in compliance with the M&A Rules; and (ii) no provision in the M&A Rules clearly classifies the Contractual Arrangements as a type of transaction subject to the M&A Rules. As a result, we did not seek prior CSRC approval for this Offering. However, we cannot assure you that the relevant PRC government authorities, including the CSRC, will reach the same conclusion as our PRC Legal Advisers. If the CSRC or other relevant PRC government authorities subsequently determine that prior CSRC approval is required, we may face regulatory actions or other sanctions from the CSRC or other PRC regulatory authorities. Based on the above, if you engage in market trading or

HISTORY, REORGANIZATION AND GROUP STRUCTURE

other activities in anticipation of and prior to settlement and delivery, you do so at the risk that settlement and delivery may not occur.

SAFE REGISTRATION

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 and which became effective on 4 July 2014, (a) a PRC resident must register with the local SAFE branch before he or she contributes assets or equity interests to an overseas special purpose vehicle (the “**Overseas SPV**”) that is directly established or indirectly controlled by the PRC resident for the purpose of conducting investment or financing, and (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. In the event that a PRC shareholder holding interests in a special purpose vehicle fails to fulfill the required SAFE registration, the PRC subsidiaries of that special purpose vehicle may be restricted from making profit distributions to the offshore parent and from carrying out subsequent cross-border foreign exchange activities, and the special purpose vehicle may be restricted in its ability to contribute additional capital into its PRC subsidiary. Furthermore, failure to comply with the various SAFE registration requirements described above could result in liability under PRC law for evasion of foreign exchange controls.

Pursuant to the Circular of 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 which became effective on 1 June 2015, the power to accept SAFE registration was delegated from local SAFE to local banks where the assets or interests in the domestic entity are located.

As advised by our PRC Legal Advisers, our individual Shareholders who are PRC citizens have completed their registration under the SAFE Circular 37 on 23 May 2018.

OVERVIEW

We are a digital entertainment content provider in the PRC with a diversified content portfolio comprising (i) mobile games mainly played on android operating system; (ii) e-magazines; and (iii) other digital media content such as comics and music. We commenced our digital media content distribution business in 2011, and expanded our product offerings to mobile games in 2014 when we first began to develop and/or operate a wide range of casual mobile games. Apart from casual mobile games which we focused primarily during the Track Record Period, we also commenced development and operation of boutique mobile games since FY2017 and launched our first multi-player mobile game in January 2019 ^(Note). Since FY2018, we have also cooperated with corporate customers who make use of the in-game airtime provided by us for placing their media content for advertising purpose. During the Track Record Period, majority of our revenue was derived from the sale of virtual items in our casual and boutique mobile games.

During the Track Record Period, our business was operated under two business lines:

- (1) **Mobile game:** (i) development and operation of mobile games, with primary focus on casual mobile game during Track Record Period, and we also launched our first multi-player mobile game in January 2019 ^(Note), where we derive our revenue primarily from the sale of virtual items in our mobile games; (ii) information services where our Group cooperated with corporate customers to integrate media content in some of our mobile games we operate. We derived revenue from the provision of in-game airtime when players click on the in-game links in the designated spaces and view the media content posted by such corporate customer in return for virtual items; and
- (2) **Digital media content distribution:** distribution of digital media content, which involves procuring licensing rights of media content from third parties including printed magazines, comics and music and distributing such content in digital format. During the Track Record Period, we derived revenue through readers' subscription of our digital media content.

The following table sets forth a breakdown of our revenue generated from each business line during the Track Record Period:

	FY2016		FY2017		FY2018		9M2018		9M2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(unaudited)									
Mobile game										
– Mobile game development and operation	116,548	83.4	151,068	88.5	90,611	63.4	78,808	65.4	146,754	85.9
– Information services	–	–	–	–	918	0.6	–	–	2,088	1.2
Digital media content distribution	23,207	16.6	19,586	11.5	51,450	36.0	41,619	34.6	21,950	12.9
	<u>139,755</u>	<u>100.0</u>	<u>170,654</u>	<u>100.0</u>	<u>142,979</u>	<u>100.0</u>	<u>120,427</u>	<u>100.0</u>	<u>170,792</u>	<u>100.0</u>

Note: An immaterial amount of revenue was derived in December 2018 during the beta testing stage of our first multi-player mobile game.

Mobile game

(i) Development and operation

As a digital entertainment content provider, we optimize our product mix according to market trend and customers' preference. During the Track Record Period, we focused primarily on single-player casual mobile games with a relaxing gameplay experience, capturing a broad spectrum players, and we also launched our first multi-player mobile game in January 2019 *(Note)*. Mobile games are single player, multi-player games played on smartphones or tablets, and / or with the computer, with or without the need of connecting to the internet for gameplay, while constant internet connection is required for regular updates, download, level clearance, as well as the payment made when players purchase virtual items during gameplay. We offer a game portfolio with a diverse selection of genres, including endless run, elimination, strategy and mind challenge, adventure and education games. All of our mobile games are free to download and play, which enable us to quickly attract new players to experience our games and achieve a critical mass of players within a short period of time. We generate revenue from the sale of virtual items to players in all of our games. Our players can settle the purchase price through various payment channels.

The life cycle of most of our games ranges from four to seven months. Some of our popular games, such as 機智的小鳥 (Witty Bird*), 鬥地主 (Battling the Landlord*), 達人麻將 (Mahjong Expert*) and 中國象棋 (Chinese Chess*), are evergreen games which have a life cycle of more than two years. Our mobile games are either self-developed or licensed games. Our growth and sustainability are backed by our research and development team comprising 17 staff as of 30 September 2019. For details of the credentials of our research and development team, please see the paragraph headed "Our Competitive Strengths — We possess an established and dedicated management and research and development team with operational expertise and industry knowledge" of this section. Subsequent to the Track Record Period and up to the Latest Practicable Date, we have launched 4 mobile games and we have 4 games in the pipeline, all of which are expected to be rolled out in the first and second quarter of 2020. During the Track Record Period, revenue of our mobile game development and operation business was derived from our 496, 222, 91 games and 79 games for FY2016, FY2017, FY2018 and 9M2019 respectively, of which, 81.0%, 42.5%, 37.6% and 25.4% was derived from our self-developed games.

Note: An immaterial amount of revenue was derived in December 2018 during the beta testing stage of our first multi-player mobile game.

The reasons for such decrease in the number of revenue generating games from FY2016 to 9M2019 include the following: (i) ***Shift of focus to develop boutique mobile games:*** with more experience in the development and operation of mobile games and having considered the efficiency and profitability of our business strategy, we trimmed down the number of self-developed games and allocated more time and resources on the development of mobile boutique games e.g. 夢想三國之闖關專家 (Dream Sanguo — Expert of Adventure*), which is likely to increase players' stickiness, conversion rate and actual spending with the refined quality and sophisticated storyline. As a result, the number of games being developed during FY2016 to 9M2019 has decreased as a result of the lengthened duration for developing these boutique games. According to the Frost & Sullivan Report, the aforementioned approach is an industry trend in the mobile game development and operation market, and it is natural transition process for some industry players, especially those middle to small industry players with limited resources including our Group. During the Track Record Period and up to the Latest Practicable Date, we have developed and operated nine boutique mobile games. According to the Frost & Sullivan Report, as players are demanding for higher quality mobile games, including boutique games, which require a longer research and development time due to the increasingly sophistication required, these boutique games are usually designed according to the players' preference in order to stand out in the fierce competition in the market. To meet such demand and requirements, boutique games require a huge capital for research purposes together with skilled capital for development and innovation, for example, we have designated up to three game developers, up to six operation personnel and up to two sales personnel to focus on the research and development of the boutique games. In addition, certain operating hours of the computer system have been used for the graphic design and other works for boutique game development. The lead time for development has also increased significantly from a range of two to three days to two weeks for less sophisticated mobile games to over 20 weeks for boutique games, and up to eight months for those with higher complexity. The shift of the development effort in boutique games has not resulted in instant corresponding increase in the number of revenue generating games as (1) the requirement for longer development span for boutique games as compared to traditional mobile games as mentioned above; and (2) since our Group is a new entrant in the boutique mobile games market, additional time is required for us to solicit cooperation with the distribution channel providers; (ii) ***Withdrawal of certain games in response to the registration requirement:*** as a result of the registration requirement imposed by the Administrative Procedures of the SAPPRFT and the Ministry of Culture which is required to be fully complied with by the end of 2016, our Group has assessed the benefits and costs of registering the games and the expected future revenue, instead of registering all the existing games which may add undue burden to administrative works and transaction costs, our Group has therefore proceeded with the registration of selected games only, for other games which our Group did not seek registration in accordance with the relevant rules, we ceased to operate them (the “**Policy-related Withdrawn Games**”); (iii) ***Suspension of the approval of the game registration:*** pursuant to the new policies imposed by the Central Committee of the Communist Party of China and the National People's Congress, the SAPPRFT at the national level has suspended the approval of game registration and issuance of publication numbers for games since March 2018 and only since 21 December 2018 when the relevant authority has resumed the approval process of game registration. According to the Frost & Sullivan Report, given the approval

process has just resumed, the number of games being approved during April 2018 to February 2019 only amounted to 83 imported games which was still far behind the level of over 1,500 domestic games before the Temporary Suspension. For further details, please see “Risk Relating to Our Business — We generated a substantial portion of our revenue from the development and operation of mobile games. We must continue to launch new games that attract and retain a significant number of players in order to maintain our revenue growth and our competitive position.” in the section headed “Risk Factors” and the paragraph headed “Reasons for the decrease in the number of revenue generating mobile games and newly launched mobile games as well as withdrawal of games during the Track Record Period” of this section.

For details of our revenue generated by our self-developed and licensed games in our mobile game development operation business line, please see the paragraph headed “(1) Our Mobile Game Development and Operation Business”.

We engage various distribution channel providers which are established companies specializing in the distribution of mobile games, with access to various distribution and advertising alliance which gives exposure to potential paying players of our games in pop-up advertisements and sponsored links on mobile apps. We had been able to tap into the diverse pool of potential paying players among China Mobile Internet and/or its affiliates customers and also, some examples of our distribution platforms include third-party app stores, mobile phone manufacturer-specific app stores and telecommunications operator app stores. By making our games available for download on the distribution platforms and through advertising alliance, we believe we are able to extend the outreach of our games to capture a mass of potential paying players with diverse age groups and background. Although all the mobile games are free-to-download and free-to-play by the public (whether they are customers of China Mobile Internet and/or its affiliates or not), substantially all of our Group’s customers during FY2016, FY2017, FY2018 were customers of China Mobile Internet and/or its affiliates. The players can purchase in-game virtual items (including users of the other telecommunication operators who could purchase virtual items through their respective distribution platforms and settle payments through their respective settlement platforms) through the corresponding authorized payment channels. Please see the second table below for details of the payment channels. In addition to acting as our Group’s major settlement agent, China Mobile Internet and/or its affiliates also acted as our major distribution channel provider for free, China Mobile Internet and its affiliates would not charge an additional percentage of the gross billings for its distribution services.

BUSINESS

Set out below is a breakdown of our revenue of our mobile game development and operation contributed by distribution channel providers during the Track Record Period:

	FY2016		FY2017		FY2018		9M2018		9M2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(unaudited)									
China Mobile Internet and/or its affiliates acting as our distribution channel provider ^(note 1)	23,434	20.1	36,211	24.0	15,964	17.6	17,733	22.5	10,595	7.2
Top five distribution channel providers ^(note 2)	48,479	41.6	67,521	44.7	37,954	41.9	37,081	47.1	123,159	83.9
Other distribution channel providers	44,635	38.3	47,336	31.3	36,693	40.5	23,994	30.4	13,000	8.9
Total	<u>116,548</u>	<u>100.0</u>	<u>151,068</u>	<u>100.0</u>	<u>90,611</u>	<u>100.0</u>	<u>78,808</u>	<u>100.0</u>	<u>146,754</u>	<u>100.0</u>

Notes:

- (1) Apart from being our settlement agent, China Mobile Internet and/or its affiliates served as our distribution channel provider by allowing us to place our mobile games on their distribution platforms for players to download during the Track Record Period without additional charge. As such, notwithstanding that they are considered our major distribution channel provider in terms of revenue contribution to our Group, they are not regarded as our suppliers.
- (2) It refers to the top five distribution channel providers excluding China Mobile Internet and/or its affiliates acting as distribution channel providers.

Regardless of the distribution channels from which a player has downloaded the mobile game, the revenue derived from the sale of virtual items would be collected and settled through settlement platforms. During FY2016 to FY2018, almost all of our revenue are collected through China Mobile Internet and/or its affiliates acting as our settlement agent, which has commenced a payment function via the Leading Mobile Payment Platform A for our single-player mobile games since April 2019. During the three years ended 31 December 2018, our Group has engaged China Mobile Internet and/or its affiliates as the settlement agent for most of our mobile games. Given that China Mobile Internet and/or its affiliates only offer mobile phone billings for our mobile games during that period of time and has not commenced to offer payment function via the Leading Mobile Payment Platform A during the same period of time, substantially all of our revenue for the three years ended 31 December 2018 were collected through China Mobile Internet and/or its affiliates. Also, since January 2019, we have introduced the Leading Mobile Payment Platform A and the Leading Mobile Payment Platform B in our multi-player mobile games.

BUSINESS

Set out below is a breakdown of our revenue of our mobile game development and operation collected through different settlement platforms during the Track Record Period.

	FY2016		FY2017		FY2018		9M2018		9M2019	
	RMB '000	%	RMB '000	%	RMB '000	%	RMB '000	%	RMB '000	%
(unaudited)										
Telecommunications operator app stores										
– China Mobile Internet and/or its affiliates										
app stores acting as our settlement										
agent ^(note 1)	116,500	100.0	150,815	99.8	89,563	98.8	78,122	99.1	100,064	68.2
– Other telecommunications operator app										
stores ^(note 2)	48	–	220	0.2	443	0.5	365	0.5	–	–
Third-party app stores ^(note 3)	–	–	5	–	484	0.5	213	0.3	46,633	31.8
Mobile phone manufacturer-specific										
app stores ^(note 4)	–	–	28	–	121	0.2	108	0.1	57	–
	<u>116,548</u>	<u>100.0</u>	<u>151,068</u>	<u>100.0</u>	<u>90,611</u>	<u>100.0</u>	<u>78,808</u>	<u>100.0</u>	<u>146,754</u>	<u>100.0</u>

Notes:

- (1) China Mobile Internet and/or its affiliates, collectively, were our top settlement agent from FY2016 to FY2018. During 9M2019, there has been an increase in the revenue collected through third-party app stores as a result of the introduction of other payment methods (ie the Leading Mobile Payment Platform A and the Leading Mobile Payment Platform B) for the new multi-player games rolled out in January 2019 and June 2019, respectively. Since the commencement of a payment function via the Leading Mobile Payment Platform A by China Mobile Internet for our single-player mobile games in April 2019, both China Mobile Internet and/or its affiliates and non-China Mobile Internet customers can settle payment to our Group via this payment channel.
- (2) The other telecommunication operator app stores refers to app stores operated by the other two telecommunication operators in the PRC.
- (3) It refers to settlement through certain popular social media channels and online payment tool, including the Leading Mobile Payment Platform A and the Leading Mobile Payment Platform B. For the revenue collected through third-party app stores, the mobile games of which are not distributed by China Mobile Internet and/or its affiliates and hence no service fee would be charged by China Mobile Internet and/or its affiliates.
- (4) It refers to settlement through certain payment apps hosted by mobile phone manufacturer.

Our mobile games were distributed via various distribution channel providers during the Track Record Period. Despite the amount of revenue generated from our mobile games distributed via China Mobile Internet and/or its affiliates represented only a relatively low percentage of our total revenue contributed from mobile games (from 7.2% to 24% during the Track Record Period), as China Mobile Internet and/or its affiliates was a highly preferred settlement platform of the players from FY2016 to FY2018, a very substantial percentage of our total revenue contributed from mobile games (from 98.8% to 100% during the period from FY2016 to FY2018) was collected from China Mobile Internet and/or its affiliates. Following the launch of our first multi-player mobile game in January 2019, the Leading Mobile Payment Platform A and the Leading Mobile Payment Platform B became available to players of all of our multi-player mobile games, which could further diversify our payment channels and we have reduced our reliance on China Mobile Internet and its affiliates accordingly. As

such, the payment collected from China Mobile Internet and its affiliates decreased from over 98% during the period from FY2016 to FY2018 to 68.2% in 9M2019 of our total revenue contributed from mobile games.

Save as when China Mobile Internet and/or its affiliates act as distribution channel providers, to the best knowledge of our Directors, there were no arrangements or relationships between China Mobile Internet and/or its affiliates and our Group's distribution channel providers.

(ii) Information services

Leveraged on our experience in game development and operation, since FY2018, our Group cooperated with corporate customers to integrate media content in some of our mobile games we operate. We derived revenue from the provision of in-game airtime when players click on the in-game links in the designated spaces and view the media content posted by such corporate customer.

We commenced such business in FY2018 and the revenue contributed in the same year amounted to RMB0.9 million. In 9M2019, the revenue generated was RMB2.1 million.

In FY2016, FY2017, FY2018 and 9M2019, our revenue amounted to RMB139.8 million, RMB170.7 million, RMB143.0 million and RMB170.8 million, respectively. During the same period, we had recorded a gross profit of RMB65.1 million, RMB76.8 million, RMB62.3 million and RMB62.8 million, respectively. Our profit attributable to the owners of our Company amounted to RMB36.5 million, RMB46.6 million, RMB47.7 million and RMB27.7 million, respectively during the same period, while net cash generated from operations amounted to RMB38.3 million, RMB74.8 million and RMB32.7 million, respectively in FY2016, FY2017 and FY2018; and net cash used in operations amounted to RMB96.8 million in 9M2019.

Our revenue increased by RMB30.9 million or 22.1% from RMB139.8 million in FY2016 to RMB170.7 million in FY2017 mainly as a result of the increase in revenue from our mobile game development and operation business by RMB34.5 million. Despite the decrease in the number of mobile games which generated revenue during FY2017, our revenue increased mainly due to (i) increase in average MPU of our top five games from 730,019 in FY2016 to 1,166,417 in FY2017; and (ii) increase in the range of the aggregate ARPPU of our top five games from RMB4.36 to RMB21.67 in FY2016 to RMB10.48 to RMB21.03 in FY2017 as a result of our effort in promoting our boutique games which we believe may induce more spending. Factors affecting the number of our players include general economic conditions and the sentiment of game industry, ability to develop games and their continued popularity, business relationships with our settlement agents and distribution channel providers, ability to monetize our player base and competition and cost of talents. Our revenue decreased by RMB27.7 million or 16.2% from RMB170.7 million in FY2017 to RMB143.0 million in FY2018 mainly as a result of the decrease in revenue from our mobile game development and operation business by RMB60.5 million and partially offset by the increase in revenue from

our digital media content distribution business of RMB31.9 million. Despite there was a decrease in revenue in the mobile game development and operation business by RMB60.5 million or 40.0% from RMB151.1 million in FY2017 to RMB90.6 million in FY2018, the increase in revenue of RMB31.9 million from our digital media content distribution business has partially offset such decrease, which was primarily due to: (i) an increase in the revenue from e-magazines distributed by us from RMB19.6 million in FY2017 to RMB51.5 million in FY2018; and (ii) an increased number of subscriptions from 5.6 million in FY2017 to 12.4 million in FY2018. Our revenue increased by RMB50.4 million or 41.9% from RMB120.4 million in 9M2018 to RMB170.8 million in 9M2019 as a result of the increase in revenue from our mobile game development and operation business by RMB68.0 million and partially offset by the decrease in revenue from digital media content distribution business. Please see the sections headed “Financial Information — Key Factors Affecting Our Results of Operation” and “Financial Information — Review of Historical Results of Operation” for a detailed discussion of fluctuations in our operating data during the Track Record Period.

Digital media content distribution

We also distribute diverse genres of e-magazines on lifestyle, leisure and health as well as comics and music. Our e-magazines, such as 戶外生活 (Outdoor Living*), Petpet也快樂 (Pet’s Delight*) and 財訊買樓通 (Property Buying Guide*), 影評錄 (Critic’s Review*) and other digital media content, were distributed through our publishing platform in the PRC during the Track Record Period. China Mobile Internet and/or its affiliates acted as our major settlement agent and distribution channel provider for our digital media. Only subscribers who are customers of China Mobile Internet and/or its affiliates can access the publishing platform of China Mobile Internet and/or its affiliates to read the digital media content. We target readers whose reading habits are evolving from printed copies to digital format due to the widespread use of smartphones in recent years. Our e-magazines and other digital media content are subscribed by readers on a monthly or issue-specific basis. For 9M2019, our e-magazines had recorded 5.6 million subscriptions. We procure licensing rights of digital media content from third-party content providers according to market trend and reader preference. During the Track Record Period, almost all of our revenue from the e-magazine business was derived from the subscription of e-magazines on monthly basis.

OUR COMPETITIVE STRENGTHS

We believe that the following principal competitive strengths are crucial to our success and essential to our future growth:

A synergetic business model empowered by complementary mobile game development and operation and digital media content distribution

As a digital entertainment content provider in the PRC, we have accumulated experience in the development and operation of a diversified content portfolio comprising mobile games, e-magazines and other digital media content. We first started our digital media content distribution business in 2011 and expanded our product offerings to mobile games in 2014

when we began to develop and/or operate a series of casual mobile games, and we also commenced development and operation of boutique mobile games since FY2017 and multi-player mobile games since November 2018. Our Directors are of the view that similar skills set is required over the different types of digital media content which we focus on, such as research and development capabilities, monetization measures and the ability to manage the relationship with distribution channel providers and distribution platforms and publishing platform, have enabled us to expand our product offerings portfolio to other areas. Over the years of our operation, we have accumulated experience in identifying the right products and taking optimal monetization measures to lengthen the life cycle of our digital media content. Some of our popular games, like 機智的小鳥 (Witty Bird*) which ranked one of our top five games in FY2016, FY2017 and FY2018, have a lifecycle of over three years. 戶外生活 (Outdoor Living*) consistently remained in the top ten e-magazines that we have distributed during the Track Record Period. Leveraging on our experience, know-how and expertise in the development and operation of different digital media content, our Group has been successful in developing and operating a series of boutique games based on popular entertainment properties, such as our mobile game series of 夢想三國 (Dream Sanguo*), which had been well received by the players. The revenue attributable to 夢想三國之闖關專家 (Dream Sanguo –Expert of Adventure*) was RMB3.2 million and RMB6.3 million in FY2017 and FY2018, respectively. Our Directors believe that, with a goal to maximize our revenue, our business lines have achieved synergy, as the personnel from different business lines can share their experience, know-how and expertise to enhance the efficiency and effectiveness of our business operations as a whole.

In addition, our complementary business lines have proven to maintain our financial strength and business robust over the Track Record Period. Due to the series of institutional restructuring of the PRC government, SAPPRFT is reformed and became a direct agency of the State Council, and the approval of new game registration in PRC has been suspended from March to December 2018. We have proactively responded to the Temporary Suspension and switched our focus to placing more emphasis on distribution of the licensed games. Despite the fierce competition for licensing rights of the licensed games as a result of the Temporary Suspension, and having taken into account the surging prices of the licensed games and our allocation of resources, we obtained licensing rights of 28 mobile games and increased the proportion of revenue contributed by licensed games during FY2018, in order to combat the negative effect brought by the Temporary Suspension. We have also intensified our efforts in the distribution of digital media content, and the revenue derived from digital media content distribution business also rose from RMB19.6 million in FY2017 to RMB51.5 million in FY2018, representing an increase of 162.8%. As a result, our profit for FY2018 maintained stable as compared to FY2017.

Our stable business relationship with large number of distribution channel providers in the PRC helps us target and attract more potential paying players and digital media content subscribers

Leveraging on the extensive network of our distribution channel providers in the PRC, our games are distributed over various distribution platforms comprising third-party app stores, mobile phone manufacturer-specific app stores and telecommunications operators app

stores, which are available primarily on Android operating system, as well as advertising alliance which gives exposure of our games in pop-up advertisements and sponsored links on mobile apps. Through the distribution platforms and advertising alliance, we have been able to tap into the diverse pool of potential paying players. The massive traffic of these distribution platforms allows us to ramp up our mobile games quickly by attracting a critical mass of players within a short time. For FY2016, FY2017, FY2018 and 9M2019, we had transacted with 71, 71, 78 and 39 distribution channel providers, respectively. The decrease of distribution channel providers in 9M2019 was in line with the decrease of our revenue generating games in the same period.

Amongst our distribution channel providers are established companies engaging in software and game development and distribution, including a listed company on NASDAQ, a company listed on NEEQ as well as a subsidiary of a listed company on the Stock Exchange. Through our collaborations with these distribution channel providers who have vast experience in online and offline mobile game distribution, we believe we will be able to provide a wide network for our game products and facilitate us in expanding our market outreach. We have maintained a stable relationship with our top five distribution channel providers, with an average of approximately three years of business relationship.

To ensure the quality and effectiveness of our distribution network, we have adopted proven selection criteria of our distribution channel providers which evaluates (i) the network coverage and operational capability; (ii) the track record in promoting mobile games; and (iii) the fee structure. We believe that the adoption of this diversified marketing approach has enabled us to distribute our games in a cost-effective manner and create multi-pillar distribution capability whilst allowing us to focus on core strengths in game development and operation.

Diversified game portfolio, superior gameplay experience and strong optimization and monetization capability

We offer a diversified game portfolio to players of all age groups. During the Track Record Period, revenue of our mobile game development and operation business line was generated from 496, 222, 91 and 79 games for FY2016, FY2017, FY2018 and 9M2019, respectively, of which, 81.0%, 42.5%, 37.6% and 25.4% was derived from our self-developed games for FY2016, FY2017, FY2018 and 9M2019 respectively. We obtained licensing rights of mobile games in our early years across diverse genres of endless run, elimination, strategy and mind challenge, and adventure. We started to build our in-house research and development team in 2015, creating, designing and developing virtual items on top of the basic game features. We also obtained licensing rights of entertainment properties for development of storyline and characters of some of our games. Through our years of operating experience, we were able to acquire in-depth experience and know-how of the game genres, characteristics of distribution platforms which attract the highest average MPUs and spending behavior of players. We have also established our competitive edge in developing various game genres, in particular elimination and endless run, throughout our years of operation. Subsequent to the Track Record Period and up to the Latest Practicable Date, we have launched four mobile

games. We plan to further operate four more mobile games including three self-developed games and one licensed game in the first and second quarter of 2020.

We have been committed to creating a player-focused game environment that offers player a relaxing, casual, free to download and play gameplay experience. We provide appealing game design, logic, settings and functions, all presented in user-friendly interface. All of our games are designed to present player with various degrees of challenge while at the same time reward such player based on his/her gameplay progression. Through analyzing players' in-game behavior, such as the frequency in using specific gaming functions, reaction to game settings, receptiveness of promotional activities and spending pattern, we roll out frequent upgrades to enhance the in-game features of our games, maintain player interest and attract them to become paying players so as to enhance our sales of virtual items.

We believe that our game features have enabled us to quickly attract new players to experience our games and achieve a critical mass of players for future growth. We generate our revenue from the sales of virtual items to players who seek to enhance their gameplay experience with special powers, equipment and/or access to higher levels. We adopt optimization and monetization strategies in game development and enhancement so as to enhance our sales of virtual items. We also strive to streamline and optimize the payment process of our players by offering a convenient settlement service provided by three major telecommunication operators in the PRC. For FY2016, FY2017, FY2018 and 9M2019, our mobile games development and operation generated revenue of RMB116.5 million, RMB151.1 million, RMB90.6 million and RMB146.8 million, respectively. We believe that, due to the gameplay experience we offer, in combination with ongoing enhancement, we have been able to improve player stickiness, as evidenced by our top performing games such as Witty Bird* (機智的小鳥), which was our top five games during each of the three years ended 31 December 2018.

Our selection of digital media content and large reader base have enabled us to establish a foothold in the digital media industry

We have established a foothold in the digital media industry since 2011. We strategically focused our digital media content distribution business on the mainstream magazines targeting at readers, with a diverse genres ranging from lifestyle, health and psychology, and distribute through the publishing platform, which enables us to reach the massive customer base of the largest telecommunication operator in the PRC. We select the magazines for digital distribution based on the popularity of printed versions of magazines to ensure that the magazines will be well received by the target readers. We are also the sole distributor on the publishing platform for the magazines which we obtained licensing rights for digital distribution.

Our proven track record in the digital media industry have been made possible by our cooperation with third-party magazine publishers and telecommunication operator of the PRC as the distribution platform and payment settlement agent. During 9M2019, our e-magazines had recorded 5.6 million subscriptions. During the Track Record Period, almost

all of our revenue from the e-magazine business was derived from the subscription of e-magazines on monthly basis. We had been able to attract a number of established magazines to cooperate with us, and during the Track Record Period, we have 40, 50, 47 and 46 e-magazines in issue respectively.

Our Directors believe that our distribution network as backed by the largest telecommunication operator in the PRC, and our track record in digital media content distribution business have both enabled us to provide an integrated solution to the third-party magazine publishers who wish to distribute their magazines in digital format, in order to capture the increasing size of smartphone users in the PRC e-magazine market. According to the Frost & Sullivan Report, the number of mobile reading subscribers in China has soared from 490 million in 2013 to 762 million in 2018, representing a CAGR of 9.2% . We believe the continued increase in the use of mobile devices and the unique features of instant interactions provided by e-magazines will enable us to further extend our reach to increasing potential mobile readers as well as our scale of operation.

We possess an established and dedicated management and research and development team with operational expertise and industry knowledge

We have an experienced professional management team with deep industry insights and an entrepreneurial corporate culture that emphasizes innovation, integrity and retention of talents. Mr. Lu, our Chairman, chief executive officer and an executive Director, has extensive experience in business development, supplier management and financial management in relation to internet services and mobile media business. Prior to joining our Group in 2015, Mr. Lu had held senior positions in renowned companies such as Sina Corporation (新浪網) and A8音樂集團 (A8 Music Group*). Mr. Liang Junhua (梁俊華), our executive Director, is experienced in business development and financial management. Prior to joining our Group, Mr. Liang, our chief financial officer and an executive Director, had over six years of financing management experience in various industry including investment banking and medical technology and equipment companies. In addition, as of 30 September 2019, our research and development department comprises 17 personnel, of which, majority of them attained tertiary education. The head of the department has extensive experience in research and development of games and related applications. Other key members of our development team also possess relevant experience and have received tertiary education.

Leveraging on the diverse background and experience of the members of the Board and senior management, together with their operational expertise and industry knowledge, we believe we have been able to translate the insights and vision of our Directors and senior management members and develop into a company with a diverse and well-balanced game portfolio comprising games which are appealing to players that will increase ARPPU and monetization opportunities, as well as a portfolio of media content of a diverse genre for digital distribution. We believe we have adopted proactive approach against industry dynamics and are well positioned to capture market demand and seize future growth. Please see the section headed “Directors and Senior Management” for details.

BUSINESS STRATEGIES

We aim to execute the following strategies to further attract increasing number of players to our mobile games, improve monetization of our mobile games and expand our market presence in the digital media content distribution:

Expand our market share in single-player mobile games with a strategic games focus on boutique mobile games

We believe a quality and dynamic portfolio of mobile games is crucial in maintaining and expanding our player base, which in turn would enable us to elevate our market position in the mobile games market. As such, we intend to employ the following strategies:

- ***obtain licensing rights of additional mobile games:*** our Directors believe we are in the early stage of operating licensed games during the Track Record Period, so we plan to adopt a conservative approach and obtain licensing rights of ten additional single-player boutique mobile games in different genres such as adventure, strategy and mind challenge and endless run from third parties. Our selection of criteria for licensing rights of mobile games from third parties include (i) the gameplay of the mobile game is smooth and stable; (ii) the genre of the mobile game is a genre that is well-received by players as at the Latest Practicable Date, such as those genres of our top five revenue generating games during the Track Record Period; (iii) the mobile game has accumulated a certain level of number of paying players of at least 30,000 to 100,000; (iv) the mobile game carries an entertainment property and the mobile game developer has valid and legal ownership of it; (v) the term of the licensing period of the mobile game is at least one year; (vi) the jurisdiction of the licensing rights spans all of mainland China; and (vii) the relevant third party has complied with all relevant laws and regulations and contracts to operate and grant licensing rights of the mobile game. Our Directors believe that through operation of licensed games, we are also able to accumulate relevant skills, such as design and animation and to further understand player preference and market development, etc. From the operation of licensed games, we are able to analyze our players' gameplay pattern e.g. their time spent on each game level, their spending patterns across different provinces in the PRC, the number of players abandoning each game level etc. By analyzing these data, we are able to design tailored strategies which aim to maintain an optimal mix of genres of games, distribution strategies to be adopted by our distribution channel providers as well as relative pricing of virtual items. Despite our Group's revenue of mobile game development and operation decreased RMB60.5 million or 40.0% from FY2017 to FY2018 mainly due to Temporary Suspension, it increased RMB68.0 million or 86.3% from 9M2018 to 9M2019, which was attributable to the effect of the increased revenue from our development and operation of our multi-player games of RMB46.4 million. We also intend to increase the number of quality licensed games in our mobile game portfolio, as we expect to allocate more resources and time on the development of

boutique games and to alleviate adverse impact brought by any delay in the approval process of game registration in case of changes in relevant laws and regulations;

- ***develop mobile games in particular, boutique mobile games, in-house:*** we plan to self-develop 12 to 16 new single-player boutique mobile games in different genres such as adventure, strategy and mind challenge and endless run by the end of 2021. As such, we plan to strengthen our in-house game research and development capabilities, aiming to (a) promote innovation and creativity during the game development process; (b) enhance development of our mobile games with a particular focus on boutique games; (c) widen our portfolio of and increase the attractiveness of our virtual items by adoption of additional data analytical methods; and (d) further explore new opportunities in different genres of mobile games, which in turn would increase the players' stickiness and extend the lifecycles of these games. To achieve this, we plan to recruit 25 new research and development personnel including four at management level, and intensify trainings to the research and development team members to stimulate their creative skills and enhance development efficiency;
- ***upgrade the information technology infrastructure:*** to support the business growth and expanded research and development capabilities, we plan to implement software upgrades such as game engines, game-designing tools and the acquisition of necessary hardware in order to accommodate the increasing technical demands for design and development purposes; and
- ***expansion of our sales and marketing personnel and operations team:*** to support this strategy, we plan to recruit additional sales and marketing personnel and operation personnel who have experience in the relevant areas, in particular the mobile boutique gaming industry. During the Track Record Period, as our mobile game development and operation business was focused in mobile games primarily, we had been focusing on our communication and liaison with distribution channel providers for mobile games, whilst leveraging on our established reputation in the mobile games industry in PRC, and therefore lesser efforts were required in establishing our business contacts. As we increased our proportion of mobile boutique games and further developed our business to expand into multi-player mobile games, in order to facilitate our expansion into the market and explore opportunities with other possible business partners such as the licensors of entertainment properties and new distribution channel providers for multi-player mobile games, our Directors believe it is necessary for our Group to expand our team in both sales and marketing and operation.

The estimated total cost for this strategy is expected to be HK\$54.1 million. We intend to fund the above by utilizing HK\$32.2 million (24.3% of the net proceeds of the Global Offering) from the net proceeds of the Global Offering.

Expedite our expansion in the multi-player mobile games market

We believe we are able to leverage on our existing operating and distribution experience and development resources in single-player mobile games to enter and expand into the multi-player mobile games market in the PRC. During the Track Record Period and up to the Latest Practicable Date, we launched five licensed multi-player mobile games, which are three licensed games and two self-developed games in the PRC. Due to the complexity of implementing a multi-player element, different development methodologies and addition of interactive features between players in multi-player mobile games, we intend to employ the following strategies:

- ***obtain licensing rights of multi-player mobile games:*** we plan to obtain licensing rights of additional multi-player mobile games from third-party licensors, covering different genres such as adventure game, and role playing games. Our Directors believe that obtaining licensed games is a good start for our Group to expand our market share in the multi-player mobile game market;
- ***develop multi-player mobile games in-house:*** We target to expand our research and development team and hire 25 new research and development personnel with experience in the gaming industry, in particular in the field of PHP programming, Linux system and adoption of state or stick synchronization for mobile games development, including four at management level so as to facilitate our game development and market expansion;
- ***upgrade the information technology infrastructure:*** as mobile games require higher level of programming skills and a larger information capacity in order to accommodate a number of players to play the game online and interact at the same time, we plan to acquire additional servers and software and search system in order to cater for a multi-player infrastructure. Such information technology system would increase storage capacity, elevate the network requirements, enhance server load in order to cater for the higher data storage demand of mobile games; and
- ***Expansion of our sales and marketing personnel and operations team:*** to support this strategy, we plan to recruit additional sales and marketing personnel and operation personnel who have experience in the relevant areas, in particular in mobile gaming industry.

The estimated total cost for this strategy is expected to be HK\$34.1 million. We intend to fund the above by utilizing HK\$20.4 million (15.4% of the net proceeds of the Global Offering) from the net proceeds of the Global Offering.

Leverage on popular entertainment properties to develop boutique mobile games

According to the Frost & Sullivan Report, mobile games based on popular entertainment properties, such as characters appearing on television programs, films, classic characters in

other games or animated movies, tend to have a longer life cycle and higher popularity. As such, we intend to further enhance our market position in mobile game development and operation and digital media content distribution by leveraging on popular entertainment properties. In particular, we believe that the introduction of more boutique games, which feature storyline based on popular entertainment properties, enables our Group to create a wider player base and increased conversion rates. In addition, we believe that games which are based on popular entertainment properties would expedite market acceptance of our mobile games, and we would also be able to enjoy the economies of scale by developing different series of games based on the same entertainment property. To achieve this, we intend to explore new cooperation opportunities with owners of entertainment properties, covering both up-and-coming characters featured in animated television series or motion pictures as well as evergreen characters. During the Track Record Period and up to the Latest Practicable Date, our Group has developed and operated nine games which were based on entertainment properties, namely our mobile game series of 夢想三國 (Dream Sanguo*) and 葫蘆娃 (Gourd Dolls*) and that have been well received by the market. On 26 February 2019, our Company has entered into a legally binding agreement with a company based in Hong Kong which is engaged in retail, merchandising, licensing, brand management and promotion (the “**Brand Licensor**”), pursuant to which the Brand Licensor has agreed to grant to us an exclusivity right for a term of 12 months in relation to certain entertainment properties held or procured by it for our development of mobile games, subject to the feasibility study to be conducted by our Company and the licensing terms to be agreed. According to the agreement, the Brand Licensor undertake to facilitate and provide assistance to our Group in the game development process which require further information about the entertainment properties concerned. As these entertainment properties are featured in popular television shows, the exposure of these entertainment properties in the media and other relevant promotion activities would further boost their popularity, and in turn our Group would be able to leverage on these features of entertainment properties and promote our games more efficiently to a wider group of players. We evaluate the market trend on an on-going basis and continue to seek business cooperation and licensing opportunities with renowned and popular entertainment properties and other intellectual properties so that we can develop boutique games and penetrate into a target market more swiftly and efficiently. Our Directors believe that it is commercially justified to obtain entertainment properties for game development for the following reasons: (i) **historical success**: we have a successful past record of games based on entertainment properties, e.g. our mobile game series of 夢想三國 (Dream Sanguo*). We believe we would benefit from the cooperation arrangements with these major entertainment properties licensors and licensors of other intellectual properties, we would be able to leverage on their advertising effort in promoting our games which are based on their entertainment properties; (ii) **costs of licensing fees**: with the limited financial resources before the Listing, our Group took an conservative approach to allocate our resources on entertainment properties, as such, we have not spent a substantial amount in procuring the licensing rights of any entertainment properties during the Trade Record Period. In addition, since our Group has been exploring different types of mobile games and mode of gameplay, we did not focus on any particular kind of mobile games previously, in view of the past success in certain popular entertainment properties and the latest market trend, our Directors are of the view that proceeding licensing rights of popular entertainment properties would be in the interests of our Group to achieve a stronger growth

BUSINESS

in our mobile games business; and (iii) **diversification of risks**: the development of mobile games of different genres would facilitate us in diversifying our risks, as these entertainment properties usually have a more long-lasting popularity than a standalone theme created by the game developer, and the promotion activities initiated by the entertainment properties licensor such as movies or launch of other side products would also benefit us.

The revenue breakdown and life cycle of the nine boutique games developed by our Group are set out below:

	FY2016	FY2017	FY2018	9M2019	Life cycle up to 30 September 2019 (months) (Note 1)
	(RMB '000)				
夢想三國之闖關專家 (Dream Sanguo – The Expert of Adventure*)	–	3,236	6,319	272	32
夢想三國之冒險傳奇 (Dream Sanguo – The Legend of Adventure)	–	426	1,575	68	33
夢想三國 (Dream Sanguo*)	–	9	45	9	24
夢想三國之傳奇機甲 (Dream Sanguo – The Legend of Mechwarrior*)	–	2	5	–	3
夢想三國之永恒之神 (Dream Sanguo – The Eternal God*)	–	–	503	5	21
夢想三國之最終之戰 (Dream Sanguo – The Final Fight*)	–	–	177	811	18
夢想三國之勇往直擊 (Dream Sanguo – The Courageous Fight*)	–	–	95	–	18
葫蘆娃保衛戰 (Gourd Dolls Defensive War*)	–	–	–	60	6
夢想三國之勇往直前 (Dream Sanguo – Courageous Charge*)	– (Note 3)	– (Note 3)	– (Note 3)	166	3 (Note 3)
Total	–	3,673	8,719	1,391	N/A

Notes:

- (1) The life cycle of a mobile game is defined as the period of time from when that game is launched up to the cessation of revenue generation ability of that game. The respective games disclosed represents the period from the month of launching of such game up to the last revenue generating month, or 30 September 2019, whichever is earlier. Save for 夢想三國 (Dream Sanguo*), 夢想三國之傳奇機甲 (Dream Sanguo – The Legend of Mechwarrior*), 夢想三國之永恒之神 (Dream Sanguo – The Eternal God*) and

夢想三國之最終之戰 (Dream Sanguo – The Final Fight*), the other mobile games have continued to generate revenue subsequent to the Track Record Period up to the Latest Practicable Date.

- (2) Since we have launched other boutique games based on the Dream Sanguo series in early 2018, our Directors took the view that it would be in the interest of our Group to focus on those games which are more popular and could generate more revenue. Our Group has put a strategic focus on 夢想三國之永恒之神 (Dream Sanguo – The Eternal God*) and 夢想三國之最終之戰 (Dream Sanguo – The Final Fight*) instead of 夢想三國之傳奇機甲 (Dream Sanguo – The Legend of Mechwarrior*), resulting in the exceptionally short life cycle for the latter game.
- (3) 夢想三國之勇往直前 (Dream Sanguo-Courageous Charge*) was launched in July 2019 with a relatively short life cycle of three months as at 30 September 2019.

As at the Latest Practicable Date, no definitive licensing terms in relation to the said entertainment properties have been entered into between our Company and the Brand Licensor yet. The estimated total cost for this strategy is expected to be HK\$44.9 million, which involves acquiring licensing rights of approximately 11 popular entertainment properties for a term of three years. We intend to fund the above by utilizing HK\$26.9 million (20.3% of the net proceeds of the Global Offering) from the net proceeds of the Global Offering.

Strengthen our monetization measures and enhance collaboration with our suppliers

We believe that monetization measures and collaboration with our suppliers, in particular the distribution channel providers and the settlement agents, are crucial for the success of our business. To achieve this, we plan to:

- ***strengthen our monetization measures:*** in the mobile game development and operation business, through our increased data analytics capability to obtain a better understanding of behavior and preferences of the players, we plan to enhance our monetization measures including improving the design and settings of our games, update of and/or introduction of new features and content, new and innovative gameplay; and
- ***enhance collaboration with our suppliers and expansion of our distribution network:*** our distribution capabilities depend on the distribution channel providers and settlement agents. We plan to work with our distribution channel providers to enhance our distribution network by strengthening our relationship with existing distribution channel providers through enhancement of our communication with them, and to optimize our revenue sharing arrangements with them. We also intend to expand our distribution network by exploring cooperation with new distribution platforms. During the Track Record Period, we entered into marketing arrangements with a number of app store operators (including manufacturer-specific app stores and telecommunications operator app stores) and distribution channel providers, so that our games are placed in a prominent space on their game shelves. We also participated in various marketing events to increase product exposure of our mobile game, for example, we intend to enhance our

presence at industry events, such as game fairs and festivals, as well as intensifying our investment in a number of advertising avenues, including the Internet and social media.

Diversify the use of payment and settlement services provider so as to optimize the payment functions of our games in order to stimulate further spending of the players

During FY2016, FY2017 and FY2018 and 9M2019, 100%, 99.8% , 98.8 % and 68.2% of our revenue for mobile games was paid and settled through the payment platforms provided by China Mobile Internet and/or its affiliates, which acted as our major settlement agent and distribution channel provider for our mobile games. As part of our strategy, we are constantly looking into possibility in cooperating with different payment channels, after considering the costs and benefits and compatibility of the mobile games. As we are rolling out more new games and moving towards development and operation of more sophisticated multi-player games, we would ride on the trend and diversify our payment and settlement agent to the Leading Mobile Payment Platform A and the Leading Mobile Payment Platform B for our multi-player mobile games. We also expect to continue to apply the Leading Mobile Payment Platforms to our future multi-players mobile games so as to diversify the payment options of our players and stimulate their further spending. Our diversification strategy has resulted in the drop of the revenue derived through China Mobile Internet and its affiliates as the payment agent from 98.8% during FY 2018 to 68.2% for the 9M2019. Our Directors believe that it would be essential for the Group to diversify and optimize the portfolio payment channels to achieve sustainable business growth.

Enrich our digital media content offering

Alongside with our mobile game products, we also plan to expand and strengthen our digital media content distribution business. To achieve this, we seek to expand our market share through better content offerings, enhanced readers' experience and broadened distribution channels. For e-magazines, we intend to increase the number of e-magazines available on the distribution platform, including obtaining licensing rights of popular and/or exclusive titles and debut offerings. In addition, we plan to broaden our distribution channels in order to reach a wider reader base. In order to support our expanded content library, we also plan to recruit two additional sales and marketing and operation personnel who will be responsible for operation and liaison with the distribution channel providers and enhancement of our operation efficiency. The estimated total cost for this strategy is expected to be HK\$2.8 million. We intend to fund the above by utilizing HK\$1.6 million (1.2% of the net proceeds of the Global Offering) from the net proceeds of the Global Offering.

Pursuing strategic acquisitions and partnerships to promptly gain market share

According to the Frost & Sullivan Report, it is also common for industry players to conduct merger and acquisition activities targeting other industry participants along the value chain, so as to expand one's business coverage. According to Frost & Sullivan, there are more than 100 mergers and acquisitions activities in the gaming industry for the past five years. We

aim to expand our business through organic growth and suitable strategic acquisitions and partnerships with entities which we believe can elevate our overall game development capabilities, expand our content creation, sourcing, distribution and adaptation capabilities and strengthen our technological capabilities. In order to expand our game portfolio, geographic coverage, we intend to selectively acquire interests in or enter into strategic partnerships with complementary mobile game developers, especially those with capabilities in artwork and design or those which possess an established distribution network.

In selecting these investment targets, we generally consider factors including: (i) suitability with our strategic planning and degree of potential synergies; (ii) market position of the relevant companies; (iii) experience of the management team; and (iv) financial indicators such as valuation, historical operating metrics and financial performance. In selecting development and/or operation teams for cooperation, we typically take into account their education background, relevant experience, market position, track records of developed games and turnover rate of the team. Our criteria for pursuing the acquisition targets includes:

- ***suitability with our strategic planning and degree of potential synergies:*** such companies shall also be within the value chain of the digital entertainment industry, which are also engaged in development of mobile games (have developed not less than 20 mobile games successfully in one year with different genres, such as adventure, strategy and mind challenge and endless run, in which certain mobile games were popular) and other digital media contents production and distribution with strength in development capabilities in mobile games as well as distribution network and would complement with our existing capabilities in both game development, operation and distribution. Our Directors believe that the relevant experience and expertise of these mobile games developers would further enhance our capabilities in the mobile games industry;
- ***market position of the relevant companies:*** we plan to focus on acquisition targets located in the PRC, we also expect such companies to have an operating history of approximately one to three years. By implementing our acquisition plan in the PRC, we would be able to leverage on human resources and business networks across the areas;
- ***experience of the management team:*** Generally we focus on targets with relatively small operation scale up to 22 staff, we target at personnel with expertise and experience in development and operation of mobile games;
- ***financial indicators:*** We aim to acquire companies with positive financial performance including net profit, positive cash flow and positive net assets. We would also consider their products in the pipeline, such as the games to be rolled out etc. The estimated total cost for this strategy is expected to be HK\$67.4 million. We intend to utilize approximately HK\$40.2 million representing approximately 30.4% of the net proceeds from the Global Offering, to further such strategy. Depending

on the acquisition cost of the targets, we plan to acquire or enter into strategic partnership with one to two mobile game developers. As a digital media entertainment content provider in the PRC with an aim to expand our operation and market share in development and operation of mobile games and digital media content distribution, we have allocated the major portion of our net proceeds to development of mobile games and expansion of the market, the remaining 30% of the proceeds have been allocated for pursuing acquisitions of potential companies. Our Directors are of the view that such allocation and arrangement are in line with the business strategy of the Group, and in the event that the costs of such acquisitions exceed the amount of proceeds allocated, the shortfall would be funded by internal resources.

Our Directors believe that through such acquisitions and/or partnerships, we will be able to (i) enhance our development capabilities and capacity; (ii) reduce the length of our game development cycle; and (iii) attract new distribution channel providers. As of the Latest Practicable Date, we have not identified any specific suitable target for potential acquisitions.

Selectively expand into overseas markets and build overseas player base

As of the Latest Practicable Date, all of our games were available to the PRC market. As part of our strategy to grow our business and increase our market share, we are exploring opportunities to expand into markets outside of China to capture growth opportunities. On 26 February 2019, our Company has entered into a legally binding agreement with the Brand Licensor pursuant to which the Brand Licensor has agreed to grant to us an exclusivity right for a term of 12 months in relation to certain entertainment properties for our game development, subject to the feasibility study to be conducted by our Company and the licensing terms to be agreed. We intend to partner with leading game publishers with overseas market to localize and adapt our game content and designs to the language, styles and player preferences of local markets that we seek to enter. Furthermore, we plan to enable cross-border in-game events, such as real-time battles among players located in different countries, to foster the establishment of an international virtual community for our games and enable us to expand our international player base.

OUR BUSINESS MODEL

During the Track Record Period, our business was operated under two business lines:

- (1) **Mobile game:** (i) development and operation of mobile games. Apart from casual mobile games which we focused primarily during the Track Record Period, we also commenced development and operation of boutique mobile games since FY2017 and multi-player mobile games since November 2018 and we launched our first mobile game in January 2019 (an immaterial amount of revenue was derived in December 2018 during the beta testing stage of the game). Under this business line, our mobile games are either self-developed or licensed from third parties. During the

BUSINESS

Track Record Period, we derived our revenue primarily from the sale of virtual items in our mobile games; (ii) information services where our Group cooperated with corporate customers to integrate media content in some of our mobile games we operate. We derived revenue from the provision of in-game airtime when players click on the in-game links in the designated spaces and view the media content posted by such corporate customer in return for virtual items; and

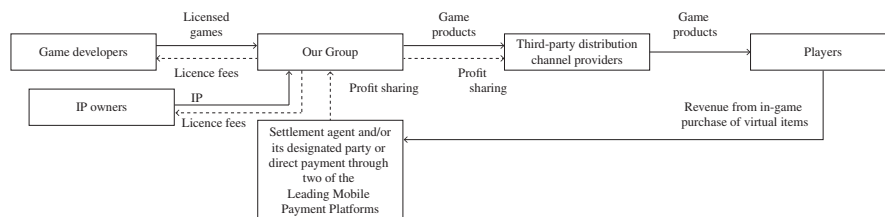
- (2) **Digital media content distribution:** distribution of digital media content, which involves procuring licensing rights of media content from third parties including printed magazines, comics and music and distributing the content in digital format. During the Track Record Period, we derived revenue primarily through readers' subscription of our digital media content.

The following table sets forth a breakdown of our revenue by business line during the Track Record Period.

	FY2016		FY2017		FY2018		9M2018		9M2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(unaudited)									
Mobile game										
– Mobile game development and operation	116,548	83.4	151,068	88.5	90,611	63.4	78,808	65.4	146,754	85.9
– Information services	–	–	–	–	918	0.6	–	–	2,088	1.2
Digital media content distribution	23,207	16.6	19,586	11.5	51,450	36.0	41,619	34.6	21,950	12.9
	<u>139,755</u>	<u>100.0</u>	<u>170,654</u>	<u>100.0</u>	<u>142,979</u>	<u>100.0</u>	<u>120,427</u>	<u>100.0</u>	<u>170,792</u>	<u>100.0</u>

(1) OUR MOBILE GAME DEVELOPMENT AND OPERATION BUSINESS

The following provides an overall illustration of our mobile game development and operation business:



Apart from developing our own games, we obtain licensing rights from third-party game developers at a licence fee payable annually to operate their games; or obtain the perpetual licence of the source code from third-party game developers based on one-off payment which ranged from RMB10,000 to RMB40,000 and further develop and operate the games. For further details of the terms with the licensors of the licensed games and the source code, please see the paragraph headed “Key contractual terms with the suppliers” of this section.

We obtain licensing rights of the entertainment properties of popular and up-and-coming characters featured in animated television series or motion pictures from IP owners. We were required to pay an upfront minimum guarantee payment ranging from RMB0.4 million to RMB1.0 million and a royalty fee calculated with reference to approximately 4% to 8% of the gross billings of the revenue arising from the games. For further details of the terms with the licensors of the entertainment properties, please see the paragraph headed “Key contractual terms with the suppliers” of this section.

We engage distribution channel providers to distribute our self-developed games or licensed games on various distribution platforms and through advertising alliance. Mobile games can be distributed through pop-up advertisements and sponsored links on mobile apps, which would direct the players to a hyperlink maintained by the distribution channel providers for downloading the games. Whilst we engage distribution channel providers to distribute the mobile games on various platforms and distribution channels, our Group focus on monetization and optimization of the games, including adopting various measures to convert non-paying players into paying players, such as introducing new types and variants of the virtual items. Our Group is not required to pay any fees to the distribution platforms for the distribution of the mobile games by distribution channel providers. For details, please see the paragraph headed “Monetization measures” of this section.

Through the distribution platforms and advertising alliance, our mobile games can be downloaded by players. Players may choose to enhance their gameplay experience by purchasing our virtual items through in-game purchase via the payment channel provided by our settlement agent.

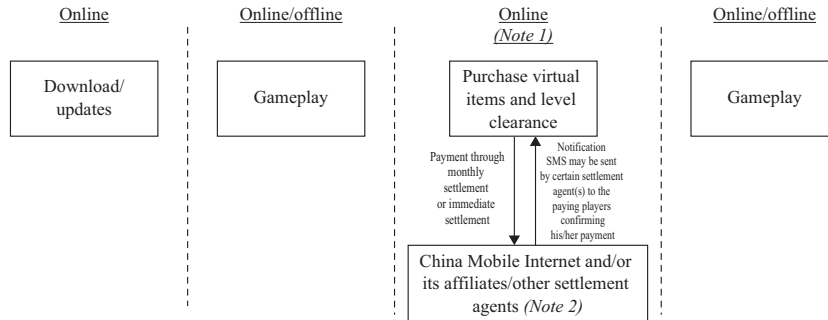
Depending on the terms of the agreement with the distribution channel providers, typically 20% to 75% of the net receipt we received from the players via the payment channels would be paid to the third-party distribution channel providers. For further details of the terms with the distribution channel providers, please see the paragraph headed “Key contractual terms with the suppliers” of this section.

For most of the revenue generated by our Group during the Track Record Period, our settlement agents retain 1% to 30% of the gross receipts from the players and pay us 70% to 99% of the gross receipts from the players in accordance with the terms of the service agreement between us and our settlement agent. For further details of the terms of the service agreement entered into between us and the settlement agent, please see the paragraph headed “Key contractual terms with the suppliers” of this section.

Under the licensing agreements entered into between us and the licensors of the entertainment properties, we pay annual licence fee to the IP owners at a rate of a specified percentage of the gross billings with a guaranteed minimum amount of royalties which is payable in advance.

BUSINESS

The following demonstrates the role which the internet has in relation to different steps when playing the mobile games:



Notes:

1. As purchase of virtual items require internet connection, our Group would be able to collect and analyze in-game data of such players.
2. Other settlement agents include (i) settlement agents of the app stores of the two other telecom operators in the PRC; (ii) settlement agents of mobile phone manufacturer-specific app stores; and (iii) settlement agents of third party app stores including the Leading Mobile Payment Platforms.

PAYMENT CHANNELS

Players may choose to enhance their gameplay experience by purchasing our virtual items through in-game purchases via various payment channels. Such third-party payment channels include mobile payment portals (such as the Leading Mobile Payment Platforms) and major telecommunications operators in the PRC, which provide the users of our mobile games with convenient settlement services.

GAME MONETIZATION

All of our games are free to download and play, and we offer our players a limited number of virtual items free of charge as a basic gameplay experience in some of our games. Allowing players to start playing our games without any payment has helped us to attract a large player base. Players may choose to enhance their gameplay experience by in-game purchase of our virtual items. During the Track Record Period, we generated majority of our revenue from the sales of virtual items in our mobile game development and operation business. Please see the section headed “Financial Information — Significant Accounting Policies and Critical Estimates and Judgment — Revenue recognition” of this prospectus for details.

BUSINESS

The following table sets forth the number of our MPU and average ARPPU of our mobile games during the Track Record Period:

Our mobile games	FY2016	FY2017	FY2018	9M2019
Number of paying players	20.7 million	22.8 million	14.9 million	9.4 million
Average MPUs	1.7 million	1.9 million	1.2 million	1.0 million
Average ARPPU	RMB11.02	RMB13.20	RMB15.41	RMB23.16

Our virtual items

We offer various virtual items to enhance the gameplay experience of our players. All of our virtual items are distinctively designed for each game and can be used in that game only. Our virtual items are non-refundable once the payment process has been completed by our players. The virtual items are purchased via payment channels, once the players confirm their purchase, the purchased virtual items are automatically available in the corresponding game. Future play and use of the purchased virtual items do not require any involvement with our Group. Players can utilize the purchased virtual items on their mobile devices and hence we have no obligation to deliver any further services to the paying players any time after the purchase. The virtual items are not transferrable between players.

We price our virtual items taking into account various factors, including players' purchasing habit in games, gameplay experience, prices of similar virtual items in similar games released by competitors. We compare price range of virtual items in comparable games in the market to better position our own games. Major types of our virtual items include:

Type of virtual items	Particulars of the virtual items and enhancement of gameplay experience	Price range (RMB)
Lives, energy and power	extra lives and energy to enable the players to extend their game	0.01 to 20.0
Giftsets	a giftset containing an assortment of virtual items for enhancing the players' capability, which aims to attract new paying users who can enjoy the experience of having additional powers or existing paying users who wish to further enhance their gameplay experience	0.01 to 30.0
Tips and toolkits	tips or reversed step/move in strategy, mind challenge and elimination games; and virtual items in the games to allow players to access different levels/ aspects of the games	1.0 to 30.0

BUSINESS

Type of virtual items	Particulars of the virtual items and enhancement of gameplay experience	Price range (RMB)
Diamonds, gems coins, golden ingots and golden coins	used to exchange for other virtual items in the games	0.1 to 3,000.0
Weapons	swords, guns, batons, bombs, tools, and buddies characters which are used in adventure games to increase the players' fighting capability	6.0 to 20.0

Monetization measures

To achieve effective monetization of our games, we adopt various practices to encourage conversion of non-paying players into paying players by implementing challenging hurdles at certain game levels. We also regularly introduce new types and variants of virtual items, which when used by players would enhance and differentiate players' gameplay experience.

To increase the number of paying players and the ARPPU, we have adopted the following measures:

Increase the number of paying players

- We set a low purchase threshold. The lowest price of our virtual items is only RMB0.01, this encourages the non-paying players to purchase virtual items to enhance their gameplay experience at a minimal cost
- We offer regular discounts to virtual items and encourage non-paying players to become paying players in order to enjoy the advanced features and privileges at a low price
- We offer free virtual items to the players at times to encourage them to make purchases in the future

Increase the ARPPU

- Various in-game promotions and activities, e.g. free virtual items
- Extend the playing time of players by giving them extra chances of survival
- Frequent display of popular virtual items to remind players about the purchasable upgrades and enhancements and motivate them to make purchases

BUSINESS

- appropriate pricing range of RMB0.01 to RMB3,000, which capture players with different purchasing powers

Data Analytics

Through our distribution platforms and our management system with in-game data maintained by our settlement agents, we are able to obtain data relating to players' gameplay and consumption activities. The data which would be made available to us depends on the distribution platforms of which the mobile games are distributed, which may include ARPPU, average MPU, daily log in rate, activation rate, daily consumption or game level consumption. For our multi-player mobile games, we track and analyze players' gameplay data closely such as daily log in duration, spending patterns and activation rates in order to assist our development of new mobile games and enhance the user experience of existing games by providing virtual items which target end-users' preferences, thus encourage non-paying users to become paying users and increase the ARPPU of our mobile games.

Based on these data, we are able to analyze our players' gameplay pattern e.g. their time spent on each game level, their spending patterns across difference provinces in the PRC, the number of players abandoning each game level etc. By analyzing these data, we are able to design tailored strategies which aim to maintain an optimal mix of genres of games, distribution strategies to be adopted by our distribution channel providers as well as relative pricing of virtual items. As the case may be, we would also discuss with our distribution channel providers on strategies to strategically boost our business performance in certain provinces in the PRC.

Our game portfolio

Our game portfolio consists of self-developed games and licensed games. Set out below is a breakdown of our revenue from our mobile game development and operation business by self-developed games and licensed games:

	FY2016				FY2017				FY2018				9M2018				9M2019													
	% of the		Revenue	% of revenue	% of the		Revenue	% of revenue	% of the		Revenue	% of revenue	% of the		Revenue	% of revenue	% of the		Revenue	% of revenue										
	Number of games	number of games			Number of games	number of games			Number of games	number of games			Number of games	number of games			Number of games	number of games												
	(RMB'000)				(RMB'000)				RMB'000				(RMB'000)				(RMB'000)													
													(unaudited)																	
Self-developed games . . .	469	94.6%	94,388	81.0%	178	80.2%	64,138	42.5%	63	69.2%	34,055	37.6% ⁴⁹ (Note)	65.3%	28,798	36.5% ³⁶ (Note)	45.6%	37,300	25.4%												
Licensed games . . .	27	5.4%	22,160	19.0%	44	19.8%	86,930	57.5%	28	30.8%	56,556	62.4%	26	34.7%	50,010	63.5%	43	54.4%	109,454	74.6%										
Total . . .	496	100.0%	116,548	100.0%	222	100.0%	151,068	100.0%	91	100.0%	90,611	100%	75	100%	78,808	100.0%	79	100.0%	146,754	100.0%										

Note: The decrease in the number of self-developed games from 49 in 9M2018 to 36 in 9M2019 was partly attributable to our proactive response to the temporary suspension which commenced in March 2018 by switching our focus to placing more emphasis on the distribution of licensed games. The number of licensed games increased from 26 in 9M2018 to 43 in 9M2019. For further details, please see the paragraph head “Our competitive strengths — A synergetic business model empowered by complementary mobile game development and operation and digital media content distribution.”

Our self-developed games are either programed solely by us or with other third-party game developers, or we obtained the perpetual licence of the source code from third-party developers or individual licensor of entertainment properties. In conjunction with other third-party game developers, we are able to strengthen our development capability by leveraging on the experience and expertise of these developers. To maintain the quality and competitiveness of our game portfolio in addition to the self-developed games, we selectively obtain licensing rights from third-party developers to operate their games, taking into account various factors such as the players’ preference, market trend, safety, technology level, player-friendliness, reputation and player feedback or the game, image and popularity of the characters.

Set out below is a breakdown of the number of revenue-generating games during the Track Record Period by casual and boutique games:

	FY2016		FY2017		FY2018		9M2018		9M2019 (Note 1)	
	Number of games	% of the number of games	Number of games	% of the number of games	Number of games	% of the number of games	Number of games	% of the number of games	Number of games	% of the number of games
Casual games	490	98.8	212	95.5	77	84.6	64	85.3	56	70.9
Boutique games	6	1.2	10	4.5	14	15.4	11	14.7	23	29.1
Total	496	100	222	100.0	91	100.0	75	100.0	79	100.0

Note 1: During 9M2019, five casual games were multi-player games (including three officially launched, and two are during the beta-testing stage). For the rest of the Track Record Period, all of the games were single-player games.

During the Track Record Period, we derived all of our revenue from self-developed and licensed games in mobile game development and operation business. A substantial number of these games fall under endless run and strategy and mind challenge game genres. For example, our 機智的小鳥 (Witty Bird*), which is regarded as endless run game and 天天鬥地主 (Battling the Landlord Every Day*) which is regarded as strategy and mind challenge game, are amongst our most popular games.

During the Track Record Period, we also operated 27, 44, 28 games and 43 games which we obtained licensing rights from third-party game developers. Under the licensing agreements entered into between us and with the third-party game developers, they typically receive from us a licence fee (usually on an annual basis) based on the amount received from the settlement agents for the relevant licensed games. Licensed game contributed towards 19.0%, 57.5%, 62.4% and 74.6% respectively of our revenue generated from our mobile game

BUSINESS

development and operation business during the Track Record Period. For further details of the terms of the agreements with the IP owners of the licensed games, please see the paragraph headed “Our Suppliers — Key contractual terms with the suppliers” of this section.

During the Track Record Period, the revenue of our mobile game development and operation business was generated from 496, 222, 91 games and 79 games for FY2016, FY2017, FY2018 and 9M2019 respectively.

The following table sets forth certain information relating to our games which ranked top five revenue generating games in the respective periods during the Track Record Period:

Game	Genre	Roll out date (Note 1)	Types and price range of the virtual items and premium features	Self-developed/ licensed games	The financial year/period in which the games ranked top 5 (Note 2)	ARPPU/Average MPU	Life cycle up to 30 September 2019 (months) (Note 3)
天天格鬥—精武之魂 (The Soul for Fighting*)	Casual-Adventure	October 2014	Diamonds and giftsets at a price ranging from RMB0.01 to RMB20.0	Self-developed game	FY2016	FY2016: RMB12.96/80,269	14
萌將春秋OL (The Warlords in the Spring and Autumn Times*)	Casual-Adventure	October 2014	Coins and extra energy at a price ranging from RMB2.0 to RMB3.0	Self-developed game	FY2016	FY2016: RMB4.36/108,466	54
鬥地主 (Battling the Landlords*)	Casual-Strategy and mind challenge	May 2015	Gold coins, diamonds and bombs at a price ranging from RMB2.0 to RMB30.0	Licensed game	FY2016	FY2016: RMB21.67/29,141	51
馬上鬥地主 (Battling the Landlords at once*)	Casual-Strategy and mind challenge	July 2015	Gold coins at a price ranging from RMB2.0 to RMB30.0	Licensed game	FY2017	FY2017: RMB18.77/152,936	51
中國象棋 (Chinese Chess*)	Casual-Strategy and mind challenge	December 2015	Tips and reverse move at a price ranging from RMB1.0 to RMB30.0	Licensed game	FY2016, FY2017 and FY2018	FY2016: RMB8.52/179,550 FY2017: RMB14.51/229,546 FY2018: RMB14.47/109,926	46
機智的小鳥 (Witty Bird*)	Casual-Endless Run	June 2015	Diamonds, energy and golden coins at a price ranging from RMB2.0 to RMB10.0	Self-developed game	FY2016, FY2017 and FY2018	FY2016: RMB8.90/332,593 FY2017: RMB10.48/478,771 FY2018: RMB10.54/149,656	46
魔法酷跑 (Magical Run*)	Casual-Endless run	July 2017	Diamonds at a price, ranging from RMB0.1 to RMB15.0	Licensed game	FY2017	FY2017: RMB21.03/58,060	51

BUSINESS

Game	Genre	Roll out date (Note 1)	Types and price range of the virtual items and premium features	Self-developed/ licensed games	The financial year/period in which the games ranked top 5 (Note 2)	ARPPU/Average MPU	Life cycle up to 30 September 2019 (months) (Note 3)
達人麻將 (Mahjong Expert*)	Casual-Strategy and mind challenge	October 2014	Giftset at a price ranging from RMB2.0 to RMB30.0	Licensed game	FY2018	FY2018: RMB18.39/105,318	55
新東方多納爾言故事 (New Oriental Donut Fable Stories*)	Casual-Education	July 2017	Toolkits at a price ranging from RMB2.0 to RMB20.0	Licensed game	FY2017 and FY2018	FY2017: RMB16.14/247,104 FY2018: RMB16.17/158,978	51
95火辣機 (Hot Flight '95*)	Casual-Adventure	November 2017	Gold coins and giftsets at a price ranging from RMB2.0 to RMB20.0	Self-developed game	FY2018	FY2018: RMB14.56/81,740	23
霸業永恒 (Eternal Champion*)	Casual-Adventure	January 2019	Gold ingots at a price ranging from RMB8.0 to RMB3,000.0	Licensed game	9M2019	9M2019: RMB368.35/12,793	9
3D滑雪狂飆 (3D Ultra Speed Skiing*)	Casual-Endless Run	January 2019	Golden coins, giftsets and extra energy at a price ranging from RMB2.0 to RMB30.0	Licensed game	9M2019	9M2019: RMB18.97/367,165	9
神奇萌泡 (Magical Bubbles*)	Casual- Elimination	April 2019	Gold coins, energy and toolkits at a price ranging from RMB1.0 to RMB30.0	Self-developed game	9M2019	9M2019: RMB18.53/116,951	6
豬豬俠之光明守衛者 (GG Bond-Guardian of the Light*)	Boutique-Adventure	January 2019	Diamond, giftsets and extra energy at a price ranging from RMB6.0 to RMB28.0	Licensed game	9M2019	9M2019: RMB18.62/103,130	9
天天酷飛 (Fly Off*)	Casual-Endless run	April 2019	Gold coins, diamonds and energy at a price ranging from RMB2.0 to RMB30.0	Self-developed game	9M2019	9M2019: RMB18.75/55,346	6

Notes:

- (1) We consider a game to be “rolled out” or “launched” a mobile game is considered to have started operation once revenue is generated, as such it may start since the beta-testing phase when we have concluded beta-testing and the game becomes available for public end-users to access and download.
- (2) For details of the revenue contribution of the games during the year which it ranked top five, please see the section headed “Financial Information” of this prospectus.
- (3) The life cycle of a mobile game is defined as the period of time from when that game is launched up to the cessation of revenue generation ability of that game. The respective games disclosed represents the period from the month of launching of such game up to the last revenue generating month, or 30 September 2019, whichever is earlier. Save for 天天格鬥-精武之魂 (The Soul for Fighting*), 萌將春秋 OL (The Warlords in the Spring and Autumn Times*) and 魔法酷跑 (Magical Run*), the other mobile games have continued to generate revenue subsequent to the Track Record Period up to the Latest Practicable Date.

BUSINESS

The following table sets forth the mobile games that contributed to over 5% of our Group's revenue from mobile games each of the Track Record Period:

FY2016

Game	Genre	Roll out date <i>(Note 1)</i>	Types and price range of virtual items and premium features	Self-developed/licensed games	ARPPU <i>(RMB)</i>	Average MPU	Revenue	Contribution	Date which pre-approval from SAPPRFT was obtained <i>(Note 2)</i>
							contribution	to our Group's revenue from mobile games for the relevant financial year	
機智的小鳥 (Witty Bird*)	Casual-Endless run	June 2015	Diamonds, energy and golden coins at a price ranging from RMB2.0 to RMB10.0	Self-developed game	8.90	332,594	18,955	16.3	5 August 2016
中國象棋 (Chinese Chess*)	Casual-Strategy and mind challenge	December 2015	Tips and reverse move at a price ranging from RMB1.0 to RMB30.0	Licensed game	8.52	179,550	11,144	9.6	31 December 2014
天天格鬥-精武之魂 (The Soul for Fighting*)	Casual-Adventure	October 2014	Diamonds and giftsets at a price ranging from RMB0.01 to RMB20.0	Self-developed game	12.96	80,269	6,526	5.6	N/A <i>(Note 3)</i>

Notes:

- (1) We consider a game to be “rolled out” or “launched” a mobile game is considered to have started operation once revenue is generated, as such it may start since the beta-testing phase when we have concluded beta-testing and the game becomes available for public end-users to access and download.
- (2) The pre-approval dates of certain licensed games are earlier than roll out date as the licensors have already launched such games for some time before licensing to our Group; for those games where the pre-approval dates of are later than roll out date, it is due to the registration requirement from SAPPRFT which is required to be fully complied with by the end of 2016.
- (3) As confirmed by our PRC Legal Advisers, since 天天格鬥-精武之魂 (The Soul for Fighting*) was withdrawn by October 2016, the game is not required to comply with the registration requirement imposed by the Administrative Procedures of the SAPPRFT and the Ministry of Culture.

BUSINESS

FY2017

Game	Genre	Roll out date (Note 1)	Types and price range of virtual items and premium features	Self-developed/ licensed games	ARPPU (RMB)	Average MPU	Revenue	Contribution	Date which pre-approval from SAPPRFT was obtained (Note 2)
							contribution	to our Group's revenue from mobile games for the relevant financial year	
							(RMB '000)	(%)	
機智的小鳥 (Witty Bird*)	Casual-Endless run	June 2015	Diamonds, energy and gold coins at a price ranging from RMB2.0 to RMB10.0	Self-developed game	10.48	478,771	35,226	23.3	5 August 2016
中國象棋 (Chinese Chess*)	Casual-Strategy and mind challenge	December 2015	Tips and reverse move at a price ranging from RMB1.0 to RMB30.0	Licensed game	14.51	229,547	23,336	15.4	31 December 2014
馬上鬥地主 (Battling the Landlords at Once*)	Casual-Strategy and mind challenge	July 2015	Gold coins at a price ranging from RMB2.0 to RMB30.0	Licensed game	18.77	152,936	19,865	13.1	2 April 2015
新東方多納寓言故 事(New Oriental Donut Fable Stories*)	Casual-Education	July 2017	Toolkits at a price ranging from RMB2.0 to RMB20.0	Licensed game	16.14	247,104	11,916	7.9	N/A (Note 3)
魔法酷跑 (Magical Run*)	Casual-Endless run	July 2017	Diamonds at a price ranging from RMB0.1 to RMB15.0	Licensed game	21.03	58,060	7,565	5.0	3 March 2017
樂隨享遊戲之土豪炸翻 天 (Freely Frolic – Super Rich Spending Spree*)	Casual-Strategy and mind challenge	July 2017	Gold coins at a price ranging from RMB2.0 to RMB10.0	Licensed game	11.06	219,321	7,555	5.0	11 November 2016
達人麻將 (Mahjong Expert*)	Casual-Strategy and mind challenge	October 2014	Giftsets at a price ranging from RMB2.0 to RMB30.0	Licensed game	18.19	58,573	7,463	5.0	31 December 2014

Notes:

- (1) We consider a game to be “rolled out” or “launched” a mobile game is considered to have started operation once revenue is generated, as such it may start since the beta-testing phase when we have concluded beta-testing and the game becomes available for public end-users to access and download.
- (2) The pre-approval dates of certain licensed games are earlier than roll out date as the licensors have already launched such games for some time before licensing to our Group; for those games where the pre-approval dates of are later than roll out date, it is due to the registration requirement from SAPPRFT which is required to be fully complied with by the end of 2016.
- (3) According to our PRC Legal Advisers, given 新東方多納寓言故事(New Oriental Donut Fable Stories*) is an education software with game elements, no pre-approval from SAPPRFT and Ministry of Culture was required to launch the game.

BUSINESS

FY2018

Game	Genre	Roll out date (Note 1)	Types and price range of virtual items and premium features	Self-developed/ licensed games	ARPPU	Average MPU	Revenue contribution	Contribution to our Group's revenue from mobile games for the relevant financial year	Date which pre-approval from SAPPRFT was obtained (Note 2)
					(RMB)		(RMB '000)	(%)	
新東方多納寓言故事(New Oriental Donut Fable Stories*)	Casual-Education	July 2017	Toolkits at a price ranging from RMB2.0 to RMB20.0	Licensed game	16.17	158,978	12,769	14.0	N/A (Note 3)
達人麻將 (Mahjong Expert*)	Casual-Strategy and mind challenge	October 2014	Giftsets at a price ranging from RMB2.0 to RMB30.0	Licensed game	18.39	105,317	10,993	12.0	31 December 2014
機智的小鳥 (Witty Bird*)	Casual-Endless run	June 2015	Diamonds, energy and golden coins at a price ranging from RMB2.0 to RMB10.0	Self-developed game	10.54	149,656	9,466	10.3	5 August 2016
中國象棋 (Chinese Chess*)	Casual-Strategy and mind challenge	December 2015	Tips and reverse move at a price ranging from RMB1.0 to RMB30.0	Licensed game	14.47	109,926	9,202	10.1	31 December 2014
95火辣機 (Hot Flight '95*)	Casual-Adventure	November 2017	Gold coins and giftsets at a price ranging from RMB2.0 to RMB20.0	Self-developed game	14.56	81,740	7,334	8.0	3 February 2017
夢想三國之關關專家 (Dream Sanguo – The Expert of Adventure*)	Boutique-Adventure	October 2017	Weapons at a price ranging from RMB0.01 to RMB29.0	Self-developed game	19.66	53,400	6,319	6.9	24 April 2017
糖果星星達人 (Candy Star Expert*)	Casual-Elimination	September 2015	Golden coins and giftsets at a price ranging from RMB1.0 to RMB20.0	Licensed game	22.91	38,299	5,509	6.0	5 August 2016

BUSINESS

9M2019

Game	Genre	Roll out date (Note 1)	Types and price range of virtual items and premium features	Self-developed/ licensed games	ARPPU	Average MPU	Revenue contribution	Contribution to our Group's revenue from mobile games for the relevant financial year/period	Date which pre-approval from SAPPRFT was obtained (Note 2)
					(RMB)		(RMB '000)	(%)	
霸業永恒 (Eternal Champion*) (Note 4)	Casual-Adventure	January 2019	Gold ingots at a price ranging from RMB8.0 to RMB3,000.0	Licensed game	368.35	12,793	39,492	26.5	15 December 2017
3D滑雪狂飆 (3D Ultra Speed Skiing*)	Casual-Endless Run	January 2019	Golden coins, giftsets and extra energy at a price ranging from RMB2.0 to RMB30.0	Licensed game	18.97	367,165	33,394	22.4	3 February 2017
神奇萌泡 (Magical Bubbles*)	Casual- Elimination	April 2019	Gold coins, energy and toolkits at a price ranging from RMB1.0 to RMB30.0	Self-developed game	18.53	116,951	17,477	11.7	19 April 2017
豬豬俠之光明守衛者 (GG Bond-Guardian of The Light*)	Boutique-Adventure	January 2019	Diamonds, giftsets and extra energy at a price ranging from RMB6.0 to RMB28.0	Licensed game	18.62	103,130	9,326	6.3	26 December 2016
天天酷飛 (Fly Off*)	Casual-Endless Run	April 2019	Gold coins, diamonds and energy at a price ranging from RMB2.0 to RMB30.0	Self-developed game	18.75	55,346	8,369	5.6	3 November 2016

Note:

- (1) We consider a game to be “rolled out” or “launched” a mobile game is considered to have started operation once revenue is generated, as such it may start since the beta-testing phase when we have concluded beta-testing and the game becomes available for public end-users to access and download.
- (2) The pre-approval dates of certain licensed games are much earlier than roll out date as the licensors have already launched such games for some time before licensing to our Group; and the pre-approval dates of certain self-developed games are later than roll out date as the registration requirement from SAPPRFT which is required to be fully complied with by the end of 2016 with a grace period and thereby our Group was in full compliance.
- (3) According to our PRC Legal Advisers, given 新東方多納寓言故事 (New Oriental Donut Fable Stories*) is an education software with game elements, no pre-approval from SAPPRFT and Ministry of Culture was required to launch the game. According to the Administration of Press and Publication of Guangdong, which is a competent government authority, 新東方多納寓言故事 (New Oriental Donut Fable Stories) is an education software with game elements, and has obtained the International Standard Book Number (ISBN). The software shall be classified as education software rather than game software, therefore no pre-approval from SAPPRFT and Ministry of Culture is required for the “New Oriental Donut Fable Stories”.
- (4) In January 2019, we have launched our first multi-player mobile game, 霸業永恒 (Eternal Champion*), which had an average MAU and DAU of 124,575 and 10,580 during 9M2019, respectively. We also analyze data collected from our mobile games to further optimize user experience and enhance our business performance as a result. For details, please see the section headed “Business — Game Monetization — Monetization measures — Data Analytics”.

BUSINESS

The life cycle of our games typically ranges from four to seven months, where some of our popular games had a life cycle of over three years. The following table sets forth the number of games newly launched and those withdrawn from the distribution platforms during FY2016, FY2017, FY2018 and 9M2019.

	FY2016	FY2017	FY2018	9M2018	9M2019
Newly launched (during the period indicated)	141	62	20	11	38
Withdrawn (during the period indicated)	331	118	93	84	23

Reasons for the decrease in the number of revenue generating mobile games and newly launched mobile games as well as withdrawal of games during the Track Record Period

During the Track Record Period, we have withdrawn 331, 118, 93 and 23 games from the distribution platforms in FY2016, FY2017, FY2018 and 9M2019, respectively, and the number of newly launched games during the Track Record Period also recorded a decreasing trend, which dropped from 141 in FY2016, to 62 in 2017, 20 in 2018 and was rebounded to 38 in 9M2019 respectively. The common reason for the withdrawal of the games and the decreased number of newly launched games during the Track Record Period was mainly attributable to the shift of focus to develop boutique mobile games, which is in line with the industry trend, and thereby necessitating us to shift the resources from less popular and profitable mobile games. During the Track Record Period and up to the Latest Practicable Date, we have developed and operated nine boutique mobile games. According to the Frost & Sullivan Report, as players are demanding for higher quality mobile games, including boutique games, which require a longer research and development time due to the increasingly sophistication required, these boutique games are usually designed according to the players' preference in order to stand out in the fierce competition in the market. To meet such demand and requirements, boutique games require a huge capital for research purposes together with skilled capital for development and innovation, for example, we have designated up to three game developers, up to five operation personnel and up to two sales personnel to focus on the research and development of the boutique games. The lead time for development has also increased significantly from a range of two to three days to two weeks for traditional mobile games to over 20 weeks for boutique games, and up to eight months for those with higher complexity. The shift of the development effort in boutique games has not resulted in instant corresponding increase in the number of revenue generating games as (1) the requirement for longer development span for boutique games as compared to traditional mobile games as mentioned above; and (2) since our Group is a new entrant in the boutique mobile games market, additional time is required for us to solicit cooperation with the distribution channel

providers. Alongside with the aforesaid, the increased number of withdrawn games was due to the withdrawal of Policy-related Withdrawn Games as a result of the additional registration requirement imposed by SAPPRFT and the Ministry of Culture, whilst the number of newly launched game is inhibited by the suspension of new games approval from March to December 2018 as a result of the policy imposed by the Administrative Procedures of the SAPPRFT and the Ministry of Culture. The analysis of the aforesaid reasons are set out below:

(i) shift of focus to develop boutique mobile games

At the early stage of our game development in 2015, we developed and/or operated over 700 mobile games which cover different genres with an aim to capture a large pool of potential paying players and to test the popularity of different types of games. As we have accumulated more experience in the development and operation of the mobile games, we adopted a strategic approach in selecting the type of games to develop and operate. Having considered our business strategy and the composition of our mobile games portfolio and their profitability, we reallocated our resources in a more efficient manner by way of trimming down the number of self-developed games operated by us in FY2017, FY2018 and 9M2019 by (i) focusing on those mobile games which are more popular and withdrawing those which are less popular; and (ii) allocating more resources and time on the development of boutique games, which feature a better quality, more sophisticated and attractive storyline and sometimes supported by popular entertainment properties. According to the Frost & Sullivan Report, the aforementioned approach is an industry trend in the mobile game development and operation market, and it is natural transition process for some industry players, especially those middle to small industry players with limited resources including our Group. As it usually takes longer time to develop and launch a boutique game, we would also promote more licensed games during the development period in order to maintain a stable growth of revenue as well as to boost our reputation and market awareness. While developing games with other third-party developers, we were able to leverage on their experience and expertise in creating more sophisticated games, and in turn strengthen our abilities in developing more quality games in future. We may also roll out upgrades to enhance the features of our games and maintain the players' interests in our games.

(ii) withdrawal of Policy-related Withdrawn Games

Due to the registration requirement imposed by the Administrative Procedures of the SAPPRFT and the Ministry of Culture which is required to be fully complied with by the end of 2016, our Group has assessed the benefits and costs of registering the games and the expected future revenue, instead of registering all the existing games which may add undue burden to administrative works and transaction costs, our Group has proceeded with the registration of selected games, for other games which our Group did not seek registration in accordance with the relevant rules, we ceased to operate all the Policy-related Withdrawn Games. Please see the section headed "Business – Legal Proceedings and Compliance — Non-compliance matters — Failure to obtain the

approvals from the SAPPRFT and to complete the filing recording process with the Ministry of Culture” of this prospectus.

(iii) suspension of the approval of the game registration

For FY2017 and FY2018, there were significantly lower number of newly launched games as compared with FY2016. This is mainly attributable to the issue of the “Plans for Deepening the Institutional Reform of the Party and the State (深化黨和國家機構改革方案)” by the Central Committee of the Communist Party of China and the issue of the “Institutional Reform Plans of the State Council (國務院機構改革方案)” by the National People’s Congress in March 2018. As a result of these new policies, the SAPPRFT at the national level has suspended the approval of game registration and issuance of publication numbers for games since March 2018 and only since 21 December 2018, where government official announced in the 2018 China Game Industry Annual Conference, the relevant authority had resumed the approval process of game registration since the suspension of the said process in March 2018. Please see the section headed “Risk Factors — Risks Relating to Our Business — Our business and financial performance may be adversely affected by the PRC government policies governing the mobile games industry” of this prospectus. Our complementary business lines have proven to maintain our financial strength and business robust over the Track Record Period. We have proactively responded to the change and switched our focus to placing more emphasis on distribution of the licensed games, despite the fierce competition for the licensing rights of the licensed games as a result of the temporary suspension of game registration in the PRC from March to December 2018, and having taken into account the surging prices of the licensed games and our allocation of resources, we obtained licensing rights of 28 mobile games and increased the proportion of revenue contributed by licensed games in order to combat the negative effect brought by the aforesaid temporary suspension. We have also intensified our efforts in the distribution of digital media content, and the revenue derived from digital media content distribution business also rose from RMB19.6 million in FY2017 to RMB51.5 million in FY2018, representing an increase of 162.8%. As a result, our profit for FY2018 maintained stable as compared to FY2017. For the nine months ended 30 September 2019, our revenue derived from digital media content distribution business decreased from RMB41.6 million in 9M2018 to RMB22.0 million in 9M2019 mainly due to the decrease in revenue from e-magazines. Such decrease was primarily due to the decrease in the number of subscribers, as a result the temporary halt of services of our major distribution platform for the upgrade of the user interface during 9M2019. The approval process of game registration has resumed since December 2018, and we have successfully obtained the approval of game registration of our new game 葫蘆娃保衛戰 (Gourd Dolls Defensive War*) in January 2019 and it was rolled out in mid-April 2019. Our business and financial performance may be adversely affected by the PRC government policies governing the mobile games industry.

Furthermore, our PRC Legal Advisers are of the view that, based on the interview conducted with the Guangdong Provincial Department of Culture and Tourism (廣東省文化和旅游廳) in February 2019, (a) the launching of mobile games without online post-filing due to the closure of the system by the MOC at the national level does not amount to non-compliance by our Group with the relevant laws and regulations of the PRC; (b) the said closure of the online post-filing does not impede the launching of our Group's mobile games; and (c) the launching of mobile games essentially requires our Group to have obtained (i) from the pre-approval of SAPPRFT, online game publishing approval number, the relevant International Standard Book Number (ISBN); and (ii) the relevant software copyright registration certificate of the mobile game. Based on the view of our PRC Legal Advisers and that we have obtained/are able to obtain online game publishing approval number, the relevant International Standard Book Numbers (ISBN) and the software copyright registration certificates for the launch of our mobile games, our Directors are of the view that the online post-filing system closure by the MOC at the national level which commenced in June 2018 and continued up to the Latest Practicable Date did not have any material financial or operational impact to our Group.

Potential impact on our Group's operations and financial position following the implementation of the Notice on Preventing Minors from Indulging in Online Games

On 25 October 2019, the Notice on Preventing Minors from Indulging in Online Games (《關於防止未成年人沉迷網絡遊戲的通知》) (the “Notice”) was issued by the SAPPRFT which has imposed a number of restrictions on mobile games including the time and duration where minors can spend on mobile games as well as the purchase amount one can spend in these mobile games. Please see the section “Summary — Recent Development” and “Regulatory Overview — Regulations related to mobile games and internet cultural products (including digital media content)” for requirements under the Notice and further details.

Potential impact on our Group's operations

The implementation of a real-name registration system and the enhancement of the program codes of the game software in order to comply with the Notice on Preventing Minors from Indulging in Online Games did not require significant manpower or financial resources. As at the Latest Practicable Date, our Group has already implemented corresponding real-name registration system for our mobile games. Therefore, our Directors considered that the implementation of the Notice has no material impact to our Group's operation.

Potential impact on our Group's financial position

Our Directors are of the view that the Notice will not have any material adverse impact on our Group's financial position on the following grounds:

(i) Synergetic business model empowered by our mobile games development and operation and digital media content distribution

We are a digital entertainment content provider in the PRC with a diversified content portfolio comprising mobile games and digital media content such as e-magazines. The gross profit generated during the Track Record Period are generated from mobile games development and operation and digital media content distribution. For each of FY2016, FY2017, FY2018 and 9M2019, our gross profit generated from mobile games amounted to RMB50.5 million, RMB64.3 million, RMB34.8 million and RMB47.2 million, respectively. For each of FY2016, FY2017, FY2018 and 9M2019, our gross profit generated by digital media content distribution amounted to RMB15.2 million, RMB13.0 million, RMB27.3 million and RMB14.3 million, respectively. According to our PRC Legal Advisers, the Notice only imposes restrictions on mobile games, including multi-players and single-player games, and it would not have any impact on our Group's digital media content distribution business which contributed to approximately 17% to 44% of our total gross profit during the Track Record Period. Evidenced by our strong flexibility in switching our effort to the distribution of different digital media content during the Track Record Period, our Directors consider that the implementation of the Notice will not have any material adverse impact on our financial position.

(ii) Limited number of players of our multi-player mobile games fall within the age group affected by the Notice

According to the information provided by the multi-player mobile games developers, our Directors understood that paying players of the multi-player mobile games under the age of 18 years old in 9M2019 constituted only around 3% of the total number of paying players of our multi-player mobile games, as such a majority of paying players of our multi-player mobile games in 9M2019 are over 18 years old. The maximum exposure of impact to the Group's revenue is therefore about 3% of our total revenue generated which our Directors consider that it will not constitute any material adverse impact to our financial position.

(iii) Diversified game portfolio offered by different entities amongst the Group together with the policy of no registration as customer of China Mobile Internet and/or its affiliates under the age of 16 years old

As only persons above the age of 16 years old can register for a mobile phone account with China Mobile Internet and/or its affiliates such that they can become

players of our mobile games, the paying players who purchase in-game virtual items through China Mobile Internet and/or its affiliates are in principle aged over 16 years old. In accordance with the Notice, there is no limitation imposed against any players over the age of 18 years old. For players over the age of 16 years old but under 18 years old, the amount of one single payment shall not exceed RMB100, and the monthly payment amount shall not exceed RMB400 for each mobile game company. For single-player games, our Directors confirm that our Group has used its best endeavours to contact China Mobile Internet to obtain further details with regard to the age groups of its account holders (i.e. players under the age of 18 years old who purchased virtual items). Despite China Mobile Internet had refused to provide such information, our Directors are of the view that only a limited number of players are under the purview of the Notice between the age of 16 years old and 18 years old based on the following:

- (a) Our Group offers a diversified game portfolio to players of all age groups. For details, please refer to the section headed “Business — Our Competitive Strengths — Diversified game portfolio, superior gameplay experience and strong optimization and monetization capability”. Also, we obtained licensing rights of mobile games in our early years across diverse game genres of endless run, elimination, strategy and mind challenge, and adventure. After due enquiry with our Group’s top six developers of licensed games in 9M2019 who indicated to our Directors that, according to their market research and/or internal review, approximately over 96% of their paying players in 9M2019 were above the age of 18 years, and our Directors understood that adults are the target players. In addition, three out of seven, five out of 12 and five out of 11 licensed game developers, representing 89.3%, 87.1% and 91.5% of the total revenue contributed by our licensed games for FY2016, FY2017 and FY2018, respectively, have indicated that according to their internal review, approximately 95% of their paying players were above the age of 18 years old; and
- (b) Based on the information provided by nine of the top 10 distribution channel providers in 9M2019 (the remaining one top 10 distribution channel provider only distributes our Group’s digital media content), our Directors understood that adults are their target players for promotion of the relevant mobile games.

In addition, the average ARPPU of our mobile games during FY2016, FY2017, FY2018 and 9M2019 are RMB11.02, RMB13.20, RMB15.41 and RMB23.16 respectively, which are significantly lower than the monthly payment limit of RMB400 for each player aged over 16 years old and under 18 years old for each mobile game company. Hence, our Directors considered that the implementation of the Notice would not have any material adverse impact on our financial position.

(iv) Stable financial performance of revenue generated before and after implementation of the Notice

Based on the information provided by China Mobile Internet and its affiliates, our revenue generated before and after the implementation of the Notice (i.e. from 1 to 15 November 2019) remains relatively stable.

Our Group has adopted various measures to comply with the requirements under the Notice including:

- (1) **Real-name registration** – (a) implemented a real-name registration system which requires each of the players to register his own game account based on his valid identity card information, and have the game account tied with the players' mobile phone number and prohibited any subsequent amendment of account information; (b) displayed a reminder to players at the sign-in page of the game to register a game account with their valid identity card information within two months from the implementation date of the Notice on 1 November 2019; and (c) formulated an internal policy to cease providing game service to players without real-name registration by suspending their respective game accounts;
- (2) **Restricting time and duration of gameplay** – monitor the game time and duration of minors and automatically ban minors who play the game in the restricted time or have exceeded the stipulated duration in the Notice by enhancing program codes of the game software; and
- (3) **Restricting maximum amount of payment** – monitor and restrict the maximum amount of single and monthly payment by enhancing program codes of the game software.

Since the implementation of the Notice and up to the Latest Practicable Date, our Group has not received any notification, warning, investigation nor has been subject to any fine or penalty or punishment in any manner in relation to any violation of the Notice. Our Directors are of the view, and the Sole Sponsor concurs, that the above mentioned measures are effective in ensuring compliance with the various requirements under the Notice.

The following sets forth an illustration of some of our representative games during the Track Record Period:

機智的小鳥 (Witty Bird*)



Players can proceed to higher levels and attempt different modes in the game.



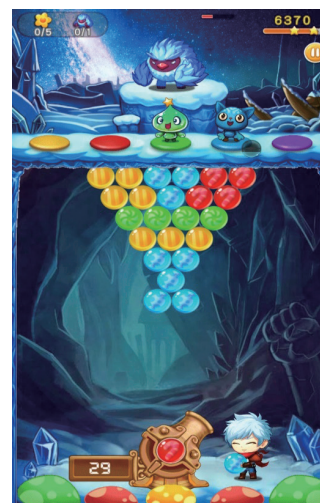
Players can purchase different virtual items for enhancing their abilities.

機智的小鳥 (Witty Bird*) is a casual adventure game. Players play the role of a cute witty bird, which is being chased by an eagle, and the player needs to control the upward and downward movement of the bird so as to escape from obstacles in its way and attacks by the eagle. During the Track Record Period, we offered virtual items including diamonds, energy and golden coins in 機智的小鳥 (Witty Bird*) at a price ranging from RMB2.0 to RMB10.0. 機智的小鳥 (Witty Bird*) was first launched in June 2015 and is available for download on distribution platform(s) and distributed through advertising alliance. The game was our top five games during FY2016, FY2017 and FY2018.

撞撞鳥糖果版 (Crashing Bird Candy Version*)



The game features different background such as a trail covered with ice.



Players can purchase additional energy to strengthen their power in the game.

撞撞鳥糖果版 (Crashing Bird Candy Version*) is a casual elimination game. Players play the role of a bird under the setting of a fairy tale with lovely magicians, fairies and elves, with the objective to avoid the obstacles in order to eat the candies. During the Track Record

Period, we offered virtual items in 撞撞鳥糖果版 (Crashing Bird Candy Version*) including power, coins and diamonds at a price of approximately RMB2.0. 撞撞鳥糖果版 (Crashing Bird Candy Version*) was first launched in July 2014 and is available for download on distribution platform(s) and distributed through advertising alliance.

鬥地主 (Battling the Landlords*)



The login page of the game.



There are a variety of virtual items for in-game purchase to increase the players' power in the games.

馬上鬥地主 (Battling the Landlords at once*)



The gaming table showing different card combinations and bet amount for players to choose from.



A variety of virtual items is available for in-game purchase to increase the players' power in the game.

鬥地主 (Battling the Landlords*) and 馬上鬥地主 (Battling the Landlords at once*) are both casual-strategy and mind challenge games and are based on the same theme. We have several games involving the theme of battling of landlords, including the 鬥地主 (Battling the Landlords*), 天天鬥地主 (Battling the Landlords Every Day*) and 馬上鬥地主 (Battling the Landlords at once*).

Each game has various game modes, such as single-player game, computer-player game, level clearance and tournaments. Numerous tasks are set at each level to challenge the players with different rewards, attracting the players to remain in the game. Players can purchase virtual items in exchange for enhancement of their experience. During the Track Record

Period, we offered virtual items in each game such as gold coins, diamonds and bombs at a price ranging from RMB2.0 to RMB30.0. Being the first amongst the three games, 鬥地主 (Battling the Landlords*) was first launched in May 2015 and is available for download on distribution platform(s) and distributed through advertising alliance.

達人麻將 (Mahjong Expert*)



Virtual items include coins and tools where the players can purchase to enhance their power.



The gaming table simulates a real mahjong table.

達人麻將 (Mahjong Expert*) is a casual-strategy and mind challenge game. Given the wide popularity of mahjong games and the variation of rules of mahjong games across different regions, 達人麻將 (Mahjong Expert*) offers varied levels for players. During the Track Record Period, we offered virtual items in 達人麻將 (Mahjong Expert*), including different giftsets of hints and coins in the game, at a price ranging from RMB2.0 to RMB30.0. 達人麻將 (Mahjong Expert*) was first launched in October 2014 and is available for download on distribution platform(s) and distributed through advertising alliance.

中國象棋 (Chinese Chess*)



Players can purchase various virtual items to enhance their capability.



The chess board displaying the hints and reverse steps.

中國象棋 (Chinese Chess*) is a casual-strategy and mind challenge game which we have launched in December 2015. In 中國象棋 (Chinese Chess*), two players compete with each other. Players can purchase virtual items in this game to receive hints or reverse steps. During the Track Record Period, we offered virtual items in 中國象棋 (Chinese Chess*) including tips and reverse move in the game at a price ranging from RMB1.0 to RMB30.0. 中國象棋 (Chinese Chess*) was first launched in December 2015 and is available for download on distribution platform(s) and advertising alliance. This game was one of our top five games during FY2016, FY2017 and FY2018.

豬豬俠之瘋狂騎士 (GG Bond-Crazy Rider*)



The login page of the game.



The race trail of the game.

豬豬俠之瘋狂騎士 (GG Bond-Crazy Rider*) is a boutique endless run game. The game is based on the entertainment properties of 豬豬俠 (GG Bond*), which races along different streets and areas, whilst defeating the enemies on its way. Players proceed to each level with the help of different virtual items such as swords, tools, buddies characters. During the Track Record Period, we offered virtual items in 豬豬俠之瘋狂騎士 (GG Bond-Crazy Rider*) such as diamonds, coins and energy at a price ranging from RMB0.1 to RMB29.0. 豬豬俠之瘋狂騎士 (GG Bond-Crazy Rider*) was first launched in the July 2017 and has been one of our representative games offered by our Group on distribution platform(s) and distributed through advertising alliance.

天天格鬥 – 精武之魂 (*The Soul for Fighting**)



The login page of the game.



The battle scene of the game.

天天格鬥 – 精武之魂 (*The Soul for Fighting**) is a casual adventure game based on the historical theme of the Spring and Autumn and Warring States period. Players play the role of different characters within the Spring and Autumn and Warring States period. The battle scene is well supported by fine resolution enabling the display of a vivid picture of military commanders and soldiers, and the players proceed with the games by strategically planning their army and accumulating weapons. During the Track Record Period, we offered virtual items in 天天格鬥 – 精武之魂 (*The Soul for Fighting**) such as giftsets and diamonds at a price ranging from RMB0.01 to RMB20.0. 天天格鬥 – 精武之魂 (*The Soul for Fighting**) was first launched in October 2014 and is available for download on distribution platform(s) and advertising alliance.

夢想三國之闖關專家 (*Dream Sanguo – The Expert of Adventure**)



The login page of the game with choices of different game modes.



The page where the players have successfully purchased a virtual item.

夢想三國之闖關專家 (*Dream Sanguo – The Expert of Adventure**) is a boutique adventure game. The game is based on the entertainment properties of a popular television series Dream Sanguo, along the storyline of the historical epic of the Three Kingdoms. Players proceed to each level with the help of different virtual items such as swords, tools, buddies characters. During the Track Record Period, we offered virtual items in 夢想三國之闖關專家 (*Dream Sanguo – The Expert of Adventure**) at a price ranging from RMB0.01 to RMB29.0. 夢想三國之闖關專家 (*Dream Sanguo – The Expert of Adventure**) was first

launched in the last quarter of 2017 and has been one of our representative games offered by our Group. 夢想三國之闖關專家 (Dream Sanguo – The Expert of Adventure*) is available for download on distribution platform(s) and advertising alliance.

95火辣機(Hot Flight '95*)



The login page of the game.



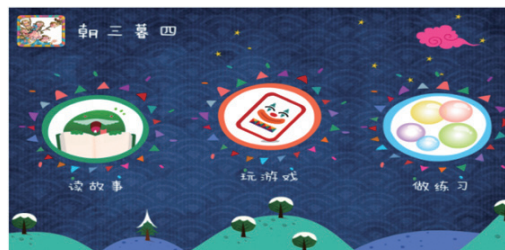
Multitude of enemy attacks happening at once in the gameplay.

95火辣機 (Hot Flight '95*) is a casual adventure game. The game is based on the vintage design of air combat shooting games. Players are given a rich selection of weapons such as battle guns with different range and power, and buddies characters for the players to battle onward in the game. During the Track Record Period, we offered virtual items in 95火辣機 (Hot Flight '95*) such as gold coins and giftsets, at a price ranging from RMB2.0 to RMB20.0. 95火辣機 (Hot Flight '95) was first launched in the last quarter of 2017 and has been one of the most popular games offered by our Group in FY2018. 95火辣機 (Hot Flight '95*) is available for download on distribution platform(s) and advertising alliance.

新東方多納寓言故事 (New Oriental Donut Fable Stories*)



A variety of fable stories can be chosen from the game.



The players can choose different activities to reinforce their learning, such as story telling, game playing and exercises.

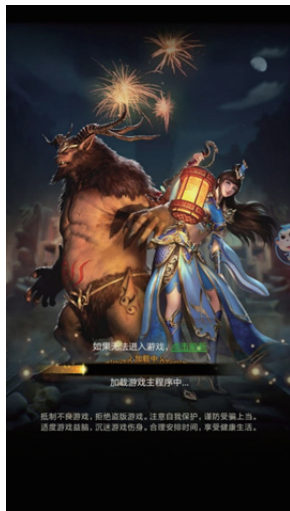
新東方多納寓言故事 (New Oriental Donut Fable Stories*) is a casual education game. The targeted players of the game are children who would use the game as an educational tool to enrich their Chinese vocabulary. Players can choose different activities to reinforce their learning. During the Track Record Period, we offered virtual items in 新東方多納寓言故事 (New Oriental Donut Fable Stories*) such as toolkits, at a price ranging from RMB2.0 to RMB20.0. 新東方多納寓言故事 (New Oriental Donut Fable Stories*) was first launched in the third quarter of 2017 and has been one of the most popular games offered by our Group in FY2017 and FY2018. 新東方多納寓言故事 (New Oriental Donut Fable Stories*) is available for download on distribution platform(s) and advertising alliance.

3D滑雪狂飆 (3D Ultra Speed Skiing*)



3D滑雪狂飆 (3D Ultra Speed Skiing*) is a casual endless run game. Players play the role of skiers and complete different tasks along the trail in advanced or classic modes. During the Track Record Period, we offered virtual items in 3D滑雪狂飆 (3D Ultra Speed Skiing*) such as golden coins giftsets and extra energy at a price ranging from RMB2.0 to RMB30.0. 3D滑雪狂飆 (3D Ultra Speed Skiing*) was first launched in January 2019 and has been one of the most popular games offered by our Group in 9M2019.

霸業永恒 (Eternal Champion*)



BUSINESS

霸業永恒 (Eternal Champion*) is a casual adventure game, which is our first multi-player mobile game launched in January 2019. Players form teams with other players to fight against enemies to obtain treasures with the help of different virtual items such as swords and weapons. During the Track Record Period, we offered virtual items in 霸業永恒 (Eternal Champion*) such as golden ingots at a price ranging from RMB8.0 to RMB3,000.0. This game was one of our top five games in 9M2019.

Game pipeline

We are constantly looking for ideas and opportunities for developing and obtaining licensing rights of licensed games. As at the Latest Practicable Date, we plan to roll out 4 new games in the first and second quarter of 2020, which consist of three self-developed games and one licensed game. In December 2017, we entered into an agreement with a third-party developer to develop a strategy and mind challenge game titled 葫蘆娃保衛戰 (Gourd Dolls Defensive War*) based on a popular animated television series broadcasted in the PRC. Such game has been rolled out as of the Latest Practicable Date. The table below sets out certain information regarding our games under development which we currently expect to roll out in the first and second quarter of 2020.

Game ⁽¹⁾	Category	Genres	Expected roll out date ⁽²⁾	Proposed types and price range of virtual items and premium features	Date of which pre-approval from SAPPRFT has been obtained	Date of licensing agreement
逐夢邊緣 (Edge of Dream*)	Licensed	Fairy – Adventure	First quarter of 2020	Golden ingots at a price ranging from RMB12 to RMB648.0	18 January 2017 (<i>Note 3</i>)	22 December 2019
消消愛大戰 (Fight against Love*)	Self-developed	Casual – Elimination	Second quarter of 2020	Golden coins, giftsets and diamonds at a price ranging from RMB2.0 to RMB30.0	21 September 2017 (<i>Note 3</i>)	N/A
太空彈珠機 (Space Marbles*)	Self-developed	Casual	Second quarter of 2020	Golden coins and giftsets at a price ranging from RMB2.0 to RMB30.0	1 December 2017	N/A
泡泡樂園 (Bubbles Fairground*)	Self-developed	Casual – Elimination	Second quarter of 2020	Diamonds and Golden coins at a price range from RMB2.0 to RMB30.0	21 September 2016 (<i>Note 3</i>)	N/A

Notes:

- (1) Names of the games are temporary and are subject to change.
- (2) Our current game pipeline is indicative as of the Latest Practicable Date and the expected roll out dates of games may differ from those presented.

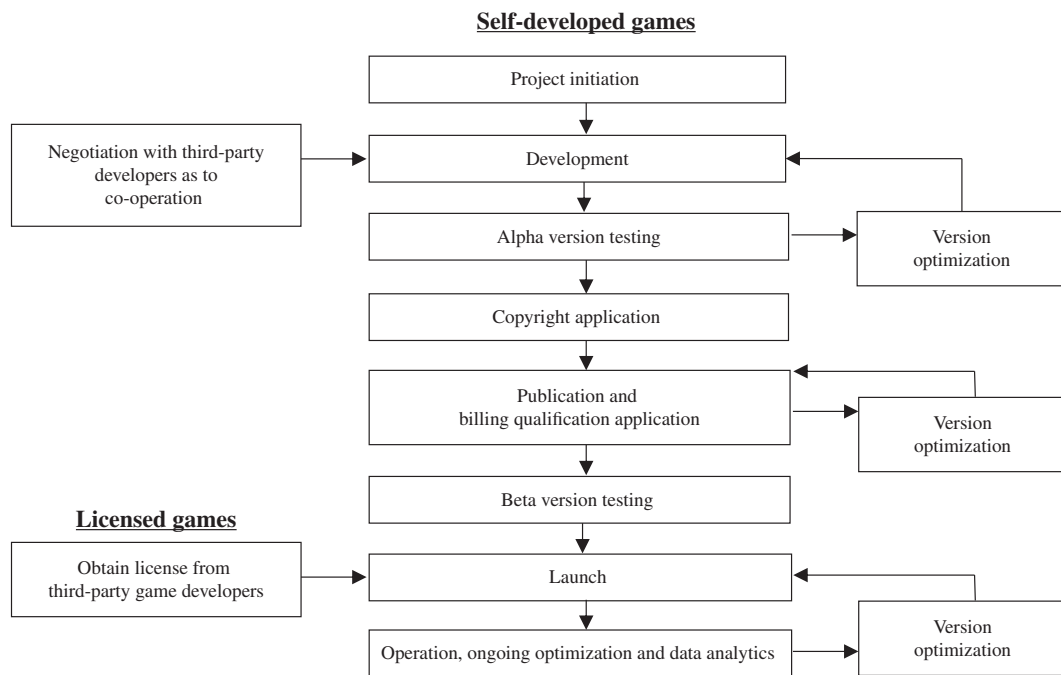
- (3) The relevant licensed games were developed by third-party game developers earlier than the time when we decided to obtain the licensing rights.

Game development process

We have accumulated in-depth knowledge of the mobile games market, player preferences, and industry trend. Coupled with our game development talent and led by our senior management, we have developed game development expertise in mobile games.

As of 30 September 2019, we had a research and development team comprising 17 personnel, who are responsible for the initial development of our games. After a game has been developed and launched, members from the same team who developed the game are typically involved in its ongoing monitoring, including bug fixing, developing, analyzing user data and releasing upgrades.

During the Track Record Period, our mobile games are typically launched within three days to two weeks from their project initiation, but the timeline varies according to the complexity of the games. For example, mini games may require only two to three days from project initiation to launch as compared to the more sophisticated boutique games which may take over 20 weeks. Our game development process can be divided into the general stages set out below.



We expect the typical period from initiation to launch will be extended to three to five months. Please see the section headed “Risk Factors — Risks Relating to Our Industry — Our business and financial performance may be adversely affected by the PRC government policies governing the mobile games industry”.

Project initiation

At the project initiation stage, our research and development team would prepare a budget and formulate an estimation on manpower, costs, expected game life cycle as well as hardware and software requirement. The research and development team would also devise game structure, the rules of the game, artwork style. The project initiation report prepared by the research and development team would be submitted to our operation team for review, who would take into account various factors, including an analysis of the target markets and potential user base, comparable games, the competitive environment as well as the latest trends relating to entertainment and popular culture, in order to develop games with themes and storylines that will attract a wide base of end-users. Once the review has been completed and the decision is made to progress with development, the project enters into the development stage.

Development

Once a new game development project is approved by both our research and development and operation teams, the assigned research and development team is responsible for the design and development of the new game and its continuous enhancement and upgrades, and the operation team is responsible for the game's operation, including on-going monitoring, resolving problems that may arise in the game and analyzing user data. A time schedule is set out to monitor the progress of the game development and also the engagement of other third-party developers.

Depending on the terms of the agreement with the third-party developers, the copyright of the developed games may be owned by us or jointly owned with the third-party developers. For details of the terms of agreement between us and the third-party developers, please see the paragraph headed "Our Suppliers" of this section.

Alpha version testing

An alpha version is a stage where all functions of the game is substantially completed. The alpha version of the game is put through several rounds of internal quick tests by our operation, product and marketing teams to discover all major technological issues and software bugs that may exist. Feedback will be provided to the research and development team, which may include technical issues, as well as other marketing considerations on game design, such as level of difficulty of each stage, colors or lighting of backdrop, design of characters and special abilities, etc. The alpha version will be modified and the internal testing will be repeated until we are satisfied with the overall performance of such alpha version.

Version optimization

Our research and development team is responsible for fixing game errors detected during alpha version testing. Normally the correction of such errors goes back and forth from the

bug fixed functions back to alpha version test and optimized again, a process which takes approximately one week, and may extend to up to three weeks for some games.

Copyright application

After the alpha version testing for a product is completed, we initially confirm the name of the game and submit a copyright application to the CPCC for the timely approval of the name of the game and its features. A copyright certificate is the proof of ownership of the copyright of the games. We apply for copyright for all our self-developed games in order to prevent piracy and illegal copying. To ease the administrative burden on handling the copyright application, we engage third-party service provider for handling the logistics of the application. Depending on the terms of the agreement with the third-party developers, the copyright of the games may be owned by us or jointly owned with the third-party developers, whereas we do not own the copyright for the licensed games.

Publication and billing right application

Before the game has successfully passed the beta version testing, our operation team, with the assistance of the research and development team, would start the relevant qualification audit and review, to prepare for the information to be submitted with the application for game publication. We would engage a third-party service provider to handle the application for game publication for us. Such qualification audit includes the application qualification requirements, such as publication registration, billing right registration according to the PRC government, in particular Ministry of Culture and CPCC requirements and the relevant billing qualification according to our the guidelines of our settlement agents. We modify the games as necessary until they have obtained the government approval for its publication and they are compatible with the requirements of our settlement agents.

Beta version testing

We roll out the beta version of the game to trial operation through third-party distribution channel providers or directly onto app stores. Marketing and promotional activities for the game generally commence after beta testing and will openly invite the public to test this game. Beta version testing will usually last for a period of one to two weeks. During beta testing, we capture, monitor and analyze user activity on a daily basis through our servers and through distribution channel providers in order to optimize user engagement and monetization potential.

Launch

We would launch our games when we have completed all the aforesaid steps. We would initially arrange two to three distribution channel providers for trial operation of the game, assess its commercial value based on the data collected. When the performance indicators such as the number of downloads, number of paying players and conversion rate reached the expected target, we will officially launch the game through our various distribution channels.

Operation, ongoing optimization and data analytics

In order to continuously improve our games and gameplay experience, we optimize our games on a regular basis and roll out new content periodically. Our games are updated depending on the response from the players. We update our games to fix bugs or programming and technical issues, install new in-game features to improve or challenge the end-users and roll out updates for newly released mobile devices or updated operating systems. Players can play the updated version with all the prior purchased virtual items and premium features.

As part of the ongoing optimization process, our operation team collects data on user behavior from our own servers. This information is then passed to the operation team for that project, which will analyze this information to identify issues and trends and pass to the development team for implementing improvements and upgrades.

We closely track and analyze end-users' in-game behavior through our servers, such as number of levels accomplished, in-game activity levels, progress of skill levels, frequency of using specific in-game functions, preference to specific types of virtual items and premium features, buying patterns and histories. Through these efforts, we are able to understand our game players' behavior patterns, which help us to enhance the design of our game features through adjusting the difficulty levels of in-game missions and challenges. In our boutique mobile games, we are able to access the relevant data and anticipate and address players' reactions to our new game features, virtual items and premium features promotions, and to optimize our marketing efforts such as highlighting the display of certain best selling virtual items, and offering giftsets containing strategic combination of virtual items and promotion discounts, which is expected to attract more players to become paying players and drive sales of other virtual items and premium features.

Customer Service

We have player customer service hotline to handle the enquiries and the complaints of the players. Players may submit enquiries, feedback or complaints relating to game operation via our hotline. Our settlement agents are responsible for players' customer service relating to payments made by individual players.

Upon receipt of complaints or enquiries from our players relating to functions and features of our games, our customer service team will respond promptly and provide a detailed explanation and instructions to guide the players to resolve their issues. Complaints relating to in-game delivery of virtual items and premium features, programming errors or technical issues or claims for damages are reported to the project teams of the relevant games, who will be responsible for resolving the reported complaints, with some cases been settled by our provision of refund in double amount or in-game virtual money to the complainants.

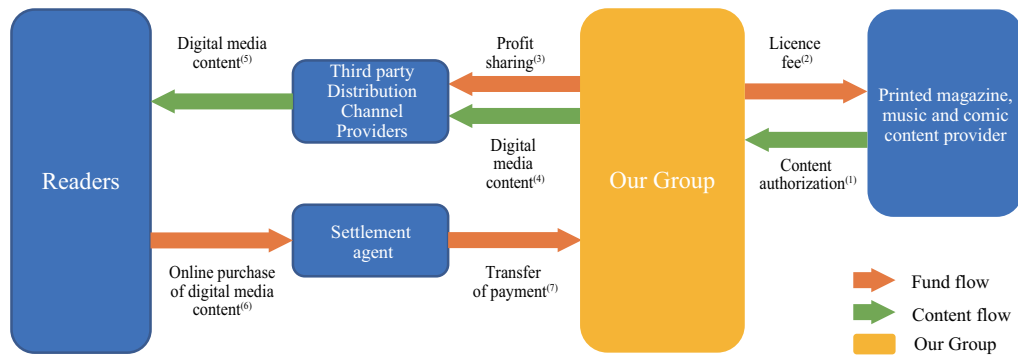
We believe that outstanding customer service plays a significant role in retaining players. In serving our players, our customer service team also collects valuable first-hand gameplay experience and feedback, which has helped us better understand player preferences and

demands and further enhance our games. Our settlement agents also forward to us any complaints received by them for follow up. During the Track Record Period and up to the Latest Practicable Date, we had not received any material claims or complaints by our players in respect of the quality of our games and there was no incident of failure of game operation or penalties from relevant regulatory bodies which had a material and adverse impact on our business operations.

(2) OUR DIGITAL MEDIA CONTENT DISTRIBUTION BUSINESS

Our digital media distribution business involves the conversion of conventional printed format of magazines into e-magazines and distribution through our publishing platform, and the digital distribution of comics and music, content of which are all supplied by third-party content providers. We target customers whose reading habits are changing from printed copies to digital version as the popularity of smartphones arise in recent years. We offer diverse genres of e-magazines on lifestyle, health, and psychology. Our digital media content is subscribed by our readers on a monthly or issue-specific basis.

Set out below is an illustration of our operation in digital media content distribution business:



Notes:

- (1) Our Group obtains licensing right from third parties including printed magazines, comics and music for distribution through digital format.
- (2) Our Group pays a licence fee at a certain percentage of the gross billings to the third-party content providers.
- (3) Depending on the terms of the agreement entered into between us and the distribution channel providers, a certain percentage of the revenue we received from the settlement agent would be paid to the third-party distribution channel providers. For further details of the terms of the agreement with the distribution channel providers, please see the paragraph headed “Key contractual terms with the suppliers” of this section.
- (4) Our Group would distribute the digital media content through the publishing platform and third-party apps through the distribution channels.
- (5) Through the publishing platform and distribution channel providers, our Group makes available the digital media content on various distribution platforms and third-party apps.
- (6) Readers subscribe for the digital media content by either clicking the relevant links, and the access link of the subscribed content would be sent to the subscribers’ email box maintained by the operator of the publishing platform, and the subscription fee would be charged to the mobile phone bills of the

subscribers through the settlement agent. The readers must maintain an internet connection to access the subscribed content and cannot download the same.

- (7) Our settlement agent pays us a specified percentage of the gross receipts from the readers in accordance with the terms of the service agreement entered into between us and the settlement agent. For further details of the terms of the agreement with the settlement agent, please see the paragraph headed “Our Settlement Agents” of this section.

Our Group’s digital media content has been published on the publishing platform, which is operated by the largest telecommunication operator in the PRC. Through the distribution channels provided by our distribution channel providers, users access the publishing platform through different distribution channels, including pop-up advertisements and sponsored links on mobile apps, which would direct the users to a single publishing platform for purchasing and downloading of the relevant digital media content.

We procure licensing rights of digital media content from third-party content providers according to market trend and readers’ preference. The third parties grant non-exclusive licensing rights of the digital media content to us. Those content has been developed or licensed by third parties and we do not own the copyright. As at the Latest Practicable Date, we are the sole content distributor for the e-magazines that are released on the distribution platform which we co-operate with.

Our primary role in this business is conversion of the conventional printed formats of magazines into e-magazines and monetization through distribution of the e-magazines through the publishing platform and SMS. Third-party content providers, usually traditional magazine publishers, have drawn value from our experience in distribution, monetizationability and our access to massive reader base of distribution platform. Most of our digital media content is distributed through the publishing platform which is operated by the largest telecommunication operator in the PRC.

As all of our digital media are licensed from third-party content providers, we charge subscription fees for each subscription with reference to the price of the printed format of the magazines and the other similar e-magazines in the market. During the Track Record Period, the subscription price of our e-magazines ranged from RMB2.0 per month to RMB30.0 per month, and RMB0.1 per issue to RMB30.0 per issue. During the Track Record Period, almost all of the subscription of our e-magazines has been on a monthly basis.

BUSINESS

The following table sets forth revenue generated from our top five digital media content through subscription, in absolute amount and as percentage of revenue generated from our digital media content distribution business during the Track Record Period.

FY2016

		Amount of revenue	% of revenue from our digital media content distribution business	Number of subscribers	Rank
Category					
		(RMB '000)			
戶外生活 (Outdoor Living*)	e-magazine	2,379	10.3%	165,299	1
Petpet 也快樂 (Pet's Delight*)	e-magazine	2,020	8.7%	66,962	2
財訊買樓通 (Property Buying Guide*)	e-magazine	1,618	7.0%	46,095	3
影評錄 (Critic's Review*)	e-magazine	1,553	6.7%	57,732	4
微博控 (Fans of Weibo*)	e-magazine	1,549	6.7%	51,242	5
Total		<u>9,119</u>	<u>39.4%</u>	<u>387,330</u>	

FY2017

		Amount of revenue	% of revenue from our digital media content distribution business	Number of subscribers	Rank
Category					
		(RMB '000)			
戶外生活 (Outdoor Living*)	e-magazine	3,360	17.2%	162,814	1
影評錄 (Critic's Review*)	e-magazine	1,706	8.7%	48,712	2
Petpet 也快樂 (Pet's Delight*)	e-magazine	1,699	8.7%	58,157	3
理財 (Wealth Management*)	e-magazine	1,557	7.9%	70,701	4
微博控 (Fans of Weibo*)	e-magazine	1,542	7.9%	49,248	5
Total		<u>9,864</u>	<u>50.4%</u>	<u>389,632</u>	

BUSINESS

FY2018

			% of revenue from our digital media content distribution business	Number of Subscribers	Rank
Category	Amount of revenue				
	(RMB '000)				
婦女生活 (Women's Living*)	e-magazine	7,287	14.2%	307,024	1
知音勵志 (Inner Voice*)	e-magazine	5,472	10.6%	212,199	2
百歲養生(Living Beyond 100*)	e-magazine	4,733	9.2%	195,694	3
家庭醫藥快樂養生 (Family Medicine Healthy Habits*)	e-magazine	4,367	8.5%	218,837	4
證券市場紅週刊 (Weekly On Stocks*)	e-magazine	4,029	7.8%	178,966	5
Total		25,888	50.3%	1,112,720	

9M2019

			% of revenue from our digital media content distribution business	Number of Subscribers	Rank
Category	Amount of revenue				
	RMB'000				
婦女生活 (Women's Living*)	E-magazine	4,150	19.0%	168,421	1
知音勵志 (Inner Voice*)	E-magazine	1,817	8.3%	42,892	2
百歲養生 (Living Beyond 100*)	E-magazine	1,787	8.2%	49,579	3
深圳青年 (Shenzhen Youth*)	E-magazine	1,768	8.1%	85,797	4
家庭醫藥快樂養生 (Family Medicine Healthy Habits*)	E-magazine	1,374	6.3%	40,332	5
Total		10,896	50.0%	387,021	

BUSINESS

Existing digital media portfolio

The following table sets forth the number of our e-magazines in issue, the aggregate number of subscriptions of our e-magazines and the aggregate number of subscribers during the Track Record Period:

	FY2016	FY2017	FY2018	9M2019
Number of e-magazines	40	50	47	46
Number of subscriptions (million)	5.6	5.6	12.4	5.6
Number of subscribers (million)	1.1	1.1	2.2	0.8

During the Track Record Period, we had 40, 50, 47 and 46 e-magazines in issue. The number of subscriptions of our e-magazines for FY2016, FY2017, FY2018 and 9M2019 was 5.6 million, 5.6 million, 12.4 million and 5.6 million, respectively. The number of subscriptions in FY2016 and FY2017 remained stable. The increase in the number of subscriptions from 5.6 million in FY2017 to 12.4 million in FY2018, representing an increase of 121.4% was primarily due to our Group's effort in increasing the number of distribution channel providers in FY2018 to 28 from 20 in FY2017 and a significant increase in the number of subscriptions to four e-magazines, namely, 百歲養生 (Living Beyond 100*), a publication on urban geography, 證券市場紅週刊 (Weekly on Stocks*), and 婦女生活 (Women's Living), between FY2017 and FY2018. The aggregate number of subscribers of our e-magazines for FY2016, FY2017, FY2018 and 9M2019 was 1.1 million, 1.1 million, 2.2 million and 0.8 million, respectively. As at the Latest Practicable Date, there were 0.8 million e-magazine subscribers in total. The number of subscribers remained stable from FY2016 and FY2017. The increase in the number of subscribers from 1.1 million in FY2017 to 2.2 million in FY2018, representing an increase of 100% which was primarily due to the increased number of subscribers to six e-magazines, namely, 婦女生活 (Women's Living*), 家庭醫藥快樂養生 (Family Medicine Healthy Habits*), 百歲養生 (Living Beyond 100*), 知音勵志 (Inner Voice*), 婚姻與家庭 (Marriage and Family*) and family and 證券市場紅週刊 (Weekly on Stocks*). Our revenue from digital media content distribution has increased in FY2018 as the user interface of the major distribution platform has been revamped and thus attracted more traffic from active users which in turn increased subscription of our digital media content. It is our Group's pricing strategy to determine the subscription fee by making reference to the prevailing market rate, such as the selling price per magazine quoted by the relevant publisher in order to maintain competitiveness. For the nine months ended 30 September 2019, our revenue derived from digital media content distribution business decreased from RMB41.6 million in 9M2018 to RMB22.0 million in 9M2019 mainly due to the decrease in revenue from e-magazines. Such decrease was primarily due to the decrease in the number of subscribers from 2.2 million in FY2018 to 0.8 million in 9M2019 as a result of the temporary halt of services of our major distribution platform for the upgrade of the user interface during 9M2019, which was commenced in January 2019 and is expected to be completed in the first quarter of 2020. To the best knowledge of our Directors, such upgrade mainly included

BUSINESS

optimization of user interface and function enhancement, which is a continuous enhancement following the revamp in FY2018. For details of the fluctuations of our financial performance in the digital media content distribution, please see the section headed “Financial Information” of this prospectus.

Set out below are examples of some of the major e-magazines which have been distributed by us during the Track Record Period:

		<u>Category</u>	<u>Unit Price</u> <i>(Note)</i>
			<i>(RMB)</i>
	<p>戶外生活 (Outdoor Living*)</p> <p>This is a monthly publication targeted at readers who enjoy traveling and provide them with information on trendy travel and outdoor life.</p>	e-magazine	5.0 per month or 2.0 per issue
	<p>Petpet 也快樂 (Pet's Delight*)</p> <p>This is a monthly publication targeted at animal lovers covering information on various aspects of pet keeping including nutrition, health, training and exercise of pets.</p>	e-magazine	5.0 per month
	<p>財訊買樓通 (Property Buying Guide*)</p> <p>This is a bi-monthly or tri-monthly publication targeted at investors and general public who would like to receive updates on financial management and property, investment information.</p>	e-magazine	5.0 per month or 2.0 per issue
	<p>影評錄 (Critic's Review*)</p> <p>This is a monthly publication targeted at movie lovers containing journalistic reviews on various types of movies and news on celebrities.</p>	e-magazine	5.0 per month

BUSINESS

		Category	Unit Price ^(Note) (RMB)
	<p>微博控 (Fans of Weibo*)</p> <p>This is a monthly publication containing internet jokes and trendy internet slang language and images commonly used on online social media platforms.</p>	e-magazine	5.0 per month
	<p>理財 (Wealth Management*)</p> <p>This is monthly publication comprising three magazines focusing on different topics on each issue, providing professional opinion on financial management, tax and other financial related topics.</p>	e-magazine	10.0 per month or 2.0 per issue
	<p>婦女生活 (Women's Living*)</p> <p>This is a monthly publication targeted at female readers covering aspects of lifestyles.</p>	e-magazine	5.0 per month
	<p>知音勵志 (Inner Voice*)</p> <p>This is a bi-monthly publication targeted at motivated readers who are just entering or have just entered into the work force covering multitude of aspects in business.</p>	e-magazine	10.0 per month or 4.0 per issue
	<p>家庭醫藥快樂養生 (Family Medicine Healthy Habits*)</p> <p>This is a monthly publication offering information on medicine and health.</p>	e-magazine	8.0 per month or 9.0 per issue
	<p>證券市場紅週刊 (Weekly on Stocks*)</p> <p>This is tri-monthly publication and is the designated magazine by the CSRC for disclosures by listed issuers in China.</p>	e-magazine	20.0 per month or 10.0 per issue.

Note: Monthly subscription provides access to the subscribed issue and all previous issues on the publishing platform, while the subscription for a specific issue only provides access to the subscribed issue on the publishing platform.

In February 2019, we were notified by the publishing platform of our digital media that the new subscription service of e-magazines on their platform will be temporarily suspended until the end of the first quarter of 2019. The issue-specific basis subscription has been resumed as at the Latest Practicable Date and as a result more subscriptions are to be expected. During the Track Record Period, almost all of our revenue from the e-magazine business was derived from the subscription of e-magazines on monthly basis. In addition, due to the system upgrade in the publishing platform for e-magazines and digital media, users without access to such publishing platform are only able to subscribe for the relevant media contents through direct access to the publishing platform.

Digital media content providers

During FY2016, FY2017, FY2018 and 9M2019, we had transacted with 10, 18, 17 and 16 e-magazine content providers. The license fee for the e-magazine content providers is generally calculated on annual basis from RMB1,500 to RMB60,000 per magazine title. We also source comics and music from individual content providers, which are all original works created by individual comic writers and musicians. We maintain stable business relationships with our content providers. During the Track Record Period and up to the Latest Practicable Date, there had been no material dispute between our Group and any of our content providers. Please see the paragraph headed “Our Suppliers” of this section for details. The number of content providers rose from FY2016 to FY2017 as a result of the Group’s effort in expanding its digital media business, which is complementary to the mobile games business. The increase comprises primarily of adding travel-themed e-magazines to the portfolio. The number of content providers remained stable in FY2018. The number of content providers in 9M2019 remained stable as compared to that in 9M2018, at 16 and 17, respectively.

Development process

Our in-house digital media development process involves the following steps:

Content selection

Our digital media collection primarily comprises e-magazines, which content ranges from lifestyle, leisure and health. We source high quality content, such as 證券市場紅週刊 (Weekly on Stocks*), from various traditional magazines publishers, whom we usually come into contact with and due to our established foothold in the industry. We procure licensing rights of media content which are suitable for conversion into digital format based on its commercial value with reference to our existing portfolio of digital media. Our offering of e-magazines are conducive to attract readers who intend to have leisure reading on diverse topics instead of highly engaging literature or fiction. In this way, we are able to reach a massive pool of readers with diverse interests and the readers can subscribe to some of our e-magazines on item or monthly basis and any time they wish to do the leisure reading.

We also source comics and music from comics artists and music publishers, with reference to the market trend and readers’ preference.

Content screening and monitoring

We place strong emphasis on our content screening and monitoring to ensure that our digital media content do not contain any offensive content or information which may jeopardize the quality of the digital media content which we distribute and to ensure that our distribution fully comply with the applicable laws and regulations. We require the third-party content providers confirm to us in the relevant licensing agreement that their content is not plagiarized from others and any losses or liabilities arising from copyright dispute will be borne by the third-party content providers. Our content monitoring staff is provided with systematic training in the latest compliance know-how, and we closely supervise the screening and monitoring work performed by our staff. In the event of any allegation raised against us in relation to distribution of any pornographic or obscene content, we will immediately launch an internal investigation to verify if the alleged content indeed contains any offensive content.

BUSINESS SUSTAINABILITY

Notwithstanding that we have experienced downturn during FY2018 in terms of revenue derived from mobile game development and operation business line as well as total number of our self-developed and licensed revenue-generating games, our Directors believe that the primary reasons attributable to such transient stagnation in the growth of our financial results are, among other things, (i) the suspension of approval of game registration and issuance of publication numbers for mobile games by SAPPRFT from March 2018 to 21 December 2018 as a result of new policies by the Central Committee of the Communist Party of China and the National People's Congress (the “**Temporary Suspension**”), leading to the delay in our launch of new games in FY2018 at a level commensurate to that in FY2016; and (ii) our strategic focus and allocation of resources on the development and promotion of mobile games and withdrawal of less popular mobile games from app stores, in order to streamline our Group's business model and to optimize our long-term revenue and profitability.

Based on the prevailing market condition and barring the occurrence of any unforeseen events which may have material adverse effect on our operations (such as the materialization of any of the risks set out in the section headed “Risk factors” of this prospectus), our Directors are of the view that there are sound bases to support that we are able to continue to maintain and further enhance our operating and financial performance going forward. As at the Latest Practicable Date, we plan to roll out four new games in the first and second quarter of 2020, which consist of three self-developed games and one licensed game. In December 2017, we entered into an agreement with a third-party developer to develop a strategy and mind challenge game titled 葫蘆娃保衛戰 (Gourd Dolls Defensive War*) based on a popular animated television series broadcasted in the PRC. Such game has been rolled out as of the Latest Practicable Date. For details, please see the section headed “Business — Game Monetization — Game pipeline” for details.

Set out below are further analysis about the sustainability of our business.

Our synergetic business model empowered by complementary mobile game development and operation and digital media content distribution gave us the competitive edge to remain sustainable.

Having established a foothold in the digital media industry since 2011 and expanded our product offerings to mobile games since 2014, followed by the operations of mobile boutique games and mobile games consecutively, we have built ourselves as an all-round digital entertainment content provider in the PRC with a diversified content portfolio comprising mobile games, e-magazines and other digital media content. Our Directors are of the view that similar skills set is required over the different types of digital media content which we focus on and with a goal to maximize our revenue, our business lines have achieved synergy, as the personnel from different business lines can share their experience, know-how and expertise to enhance the efficiency and effectiveness of our business operations as a whole. Our network of distribution channel providers and settlement agents and our established relationship with them can also be shared between various business lines, which enable us to remain competitive in terms of infrastructure and distribution network, which are vital for our business.

As a result, despite the revenue decline in our mobile game development and operation business line for FY2018, we were able to maintain an increasing trend for total revenue recognized during the Track Record Period, which to a large extent was attributable to the strong performance in our digital media content distribution business line. Our revenue generated from such line increased significantly from RMB23.2 million in FY2016 to RMB51.5 million in FY2018, representing a CAGR of 30.5%.

With the launch of our first mobile on-line game in January 2019, it generated a revenue of RMB39.5 million for 9M2019 (an immaterial amount of revenue was derived in December 2018 during the beta testing stage of the game).

Furthermore, we managed to switch our focus to place more emphasis on the licensed games and other digital content offerings to proactively respond to the Temporary Suspension during FY2018 which has caused a material adverse impact on our financial results, demonstrating our capabilities to thrive among fierce competition and against market uncertainties to maintain our business sustainability in the industry. Since FY2018, we have also successfully secured new business from the corporate customer, which is a leading player in its field, for our information services. Such business line would further strengthen our portfolio and ability to remain competitive in the business.

Seamless succession of the games in our portfolio: Subsequent to the Track Record Period and up to the Latest Practicable Date, we have launched four games, of which, one of them were licensed game and the rest were self-developed games. Based on the past experience of our Group and the market data, it is expected that the average lifecycle of the games which would be rolled out in the first and second quarter of 2020, would have an average lifecycle of eight months to 18 months. With our shift of business focus to games with higher quality and sophistication, the recently launched games and the games in the pipelines are expected to have a longer lifecycle. It is also expected the incorporation of entertainment properties in

boutique games will lengthen the lifecycle of the games, which in turn lengthen the duration of revenue stream from the games. We also launch frequent fixes and updates to our existing games with new features, levels and characters to enhance user satisfaction and increase retention rate, which helps extend the lifecycle of our games. Some of our popular games, such as 機智的小鳥(Witty Bird*) which ranked one of our top five games in FY2016, FY2017 and FY2018, have a lifecycle of over three years. For example, 中國象棋(Chinese Chess*), 鬥地主(Battling the Landlords*) and 撞撞鳥糖果版 (Crashing Bird Candy Version*) are among the mobile games with a lifecycle of more than two years. For further details of our games in the pipeline, please refer to the section headed “Business — Game Monetization — Game Pipeline” for details.

Flexible and diversified game portfolio comprising self-developed and licensed games, casual and hardcore games: Success of our business lie on, among others, the extensive network of our distribution channel providers in the PRC and our skills and experience in promotion of these games. In addition to our self-developed games, we also obtain licensing rights of the licensed games, with our expertise in game operation, we are able to generate revenue by implementing appropriate monetization measures. The flexibility provided by a portfolio with both self-developed games and licensed games alleviates the negative effect on our Group in respect of any government policy change in respect of the legal requirement such as the game registration approval. On the other hand, the composition of both casual and boutique games in our portfolio enables us to capture a wider network of customers, including those who look for a simple gameplay experience for relaxation, and those who look for innovative gameplay mechanics with sophistication in gameplay and a stronger storyline. Our game portfolio was thus able to capture various types of customers and maximize our growth.

According to the Frost & Sullivan Report, the key competitiveness of entertainment content provider including our Group, relies on its ability to maintain a robust portfolio of revenue generating games and digital media content. To do so, it is necessary for our Group to maintain a constant pipeline of mobile games, covering different genres and modes, as well as maintaining a network of distribution channel providers, game developers, digital content providers and entertainment properties licensors. With the stronger financial resources after Listing, we would be able to increase the number of games in the pipeline on the following grounds: (1) we would be able to conduct research and development of increased number of games with a stronger base of financial resources, as we would be able to dedicate more manpower and capital resources to develop more number of games, instead of giving up certain games. For example, due to the lack of sufficient financial resources, we have previously cut down the development of traditional mobile games to focus on the development of boutique games; (2) we would be able to obtain the licensing rights of additional licensed games and those with higher popularity; and (3) we would be able to secure licensing rights of more popular entertainment properties where we would be able to develop a series of boutique games on these entertainment properties. Subsequent to the Track Record Period, our Group has been able to increase the games in the pipeline to four as at the Latest Practicable Date,

mainly due to the reason that we have rolled out games with certain updates, including increased number of levels, optimization of virtual items and the interface, increased number of game characters and gameplay experience.

Our strategy of leveraging on popular entertainment properties to develop boutique mobile games will enrich our portfolio and enhance our market position in the long run.

According to the Frost & Sullivan Report, mobile games based on popular entertainment properties, such as characters appearing on television programs, films, classic characters in other games or animated movies, tend to have a longer life cycle and higher popularity. Alongside with our current business strategy of moving towards boutique games development and operations, we have also formulated our future business strategy to further enhance our market position in mobile game development and operation and digital media content distribution by leveraging on popular entertainment properties, and we will intensify our efforts in this respect to achieve further growth and maximize our profitability going forward.

During the Track Record Period and up to the Latest Practicable Date, our Group has developed and operated nine games which were based on entertainment properties, namely our mobile game series of 夢想三國 (Dream Sanguo*) and 葫蘆娃 (Gourd Dolls*), and the games have been well received by the market. During the Track Record Period, we also operated 27, 44, 28 and 43 games, respectively, which we obtained licensing rights from third-party game developers for their entertainment properties. Based on these experiences, we will further explore new cooperation opportunities with owners of entertainment properties, covering both up-and-coming characters featured in animated television series or motion pictures as well as evergreen characters.

Our Directors also believe that with the strategic focus to allocate more resources on the development of boutique games, which feature a better quality, more sophisticated and attractive storyline and sometimes supported by popular entertainment properties, enables our Group to widen our player base and increased conversion rates expedite market acceptance of our mobile games. We would also be able to enjoy the economies of scale by developing different series of games based on the same entertainment property and to catch up with the market trend of increasing number of highly popular entertainment properties games, which are necessary and pivotal to our Group's competitiveness and success in the long run.

Our Group has proven operating history and experienced management team with profound insight and strong execution capabilities to stay vital and dynamic in the industry.

Our Group commenced business in 2011 and has long-established and well-maintained relationships with our settlement agent and many distribution channel providers in the PRC, which guaranteed our steady growth and business operations throughout the years. In particular, we have recorded satisfactory financial results during the Track Record Period with our total revenue amounting to RMB139.8 million, RMB170.7 million, RMB143.0 million and RMB170.8 million, respectively, whilst our profit for the year amounting to RMB40.6 million, RMB50.6 million, RMB51.7 million and RMB30.9 million, respectively.

BUSINESS

Our Directors are of the view that our continuous operational success also greatly relies on our experienced professional management team with deep industry insights and an entrepreneurial corporate culture that emphasizes innovation, integrity and retention of talents. Leveraging on the diverse background and experience of the members of the Board and senior management, together with their operational expertise and industry knowledge, we believe we have been able to translate the insights and vision of our Directors and senior management members and develop into a company with a diverse and well-balanced game portfolio. We believe we have adopted proactive approach against industry dynamics and are well positioned to capture market demand and seize future growth.

OUR SUPPLIERS

During the Track Record Period, suppliers for our mobile game development and operation business include third-party game developers, IP licensors, and distribution channel providers. For our digital media content distribution business, our major suppliers primarily include third-party content providers and distribution channel providers.

Cost of sales attributable to our five largest suppliers for FY2016, FY2017, FY2018 and 9M2019 accounted for approximately 60.3%, 56.6%, 52.3% and 78.4%, respectively, of our total cost of sales for those periods. Our largest supplier for FY2016, FY2017, FY2018 and 9M2019 accounted for approximately 21.8%, 26.1%, 18.9% and 34.4%, respectively, of our total purchases for those periods.

As of the Latest Practicable Date, none of the Directors, their close associates or any shareholders of our Company (which to the knowledge of our Directors) owned more than 5% of our Company's issued share capital had any interest in any of our five largest suppliers during the Track Record Period. All of our suppliers were Independent Third Parties.

Top five suppliers

For FY2016, FY2017, FY2018 and 9M2019, the costs attributable to our top five suppliers accounted for approximately 60.3%, 56.6%, 52.3% and 78.4% of our total cost of services for the respective periods. Set out below are the top five suppliers during the Track Record Period:

Rank	Name of supplier	FY2016				Credit period	Background of the supplier
		Service provided to our Group	Amount of our Group's cost of sales	% of our Group's cost of sales	Commencement year of our business relationship		
			(RMB million)	(%)			
1.	Supplier Group A ^(Note)	Distribution channel provider	16.2	21.8	2015	60 days	The group is engaged in the provision of, amongst others, telecommunication services and information technology consulting services
2.	Supplier Group Shouyou	Distribution channel provider	13.7	18.3	2015	60 days	The group is engaged in the provision of, amongst others, network technology development services, telecommunication services and digital technology development services
3.	Supplier Group Snowfish	Distribution channel provider	6.1	8.2	2014	60 days	The group is engaged in the provision of, amongst others, internet and mobile game publishing, and network consulting services
4.	廣州龍岑信息科技有限公司 (Guangzhou Longyi Information Technology Co., Ltd.*)	Distribution channel provider	6.1	8.1	2016	90 days	It is engaged in the provision of, amongst others, game software design services
5.	Supplier B	Distribution channel provider	2.9	3.9	2015	60 days	It is engaged in provision of, amongst others, mobile game operation
Total			45.0	60.3			

Note: Supplier Group A comprised two suppliers of the Group which are deemed to be the same customer as they are members of the same group.

BUSINESS

FY2017

Rank	Name of supplier	Service provided to our Group	Amount of our Group's cost of sales (RMB million)	% of our Group's cost of sales (%)	Commencement year of our business relationship	Credit period	Background of the supplier
1.	Supplier Group Shouyou	Distribution channel provider	24.5	26.1	2015	60 days	The group is engaged in the provision of, amongst others, network technology development services, telecommunication services and digital technology development services
2.	上海辰告信息技術有限公司 (Shanghai Chengao Information Technology Co., Ltd.*)	Distribution channel provider	14.3	15.2	2017	60 days	It is engaged in the provision of, amongst others, technology consultation services
3.	蘇州雲清偉業網絡科技有限公司 (Suzhou Yunqing Weiye Network Technology Co., Ltd.*)	Distribution channel provider	5.3	5.6	2017	60 days	It is engaged in the provision of, amongst others, technology development and consultation services
4.	Supplier Group Snowfish	Distribution channel provider	4.6	4.9	2014	60 days	The group is engaged in the provision of, amongst others, internet and mobile game publishing, and network consulting services
5.	深圳市魔趣科技有限公司 (Shenzhen City Moqu Technology Co., Ltd.*)	Distribution channel provider	4.5	4.8	2017	60 days	It is engaged in the provision of, amongst others, game software development services and advertising services
Total			53.2	56.6			

BUSINESS

FY2018

Rank	Name of supplier	Service provided to our Group	Amount of our Group's cost of sales (RMB million) (unaudited)	% of our Group's cost of sales (%)	Commencement year of our business relationship	Credit period	Background of the supplier
1.	Supplier Group Shouyou	Distribution channel provider	15.3	18.9	2015	60 days	The group is engaged in the provision of, amongst others, network technology development services, telecommunication services and digital technology development services
2.	上海辰告信息技術有限公司 (Shanghai Chengao Information Technology Co., Ltd.*)	Distribution channel provider	13.0	16.1	2017	60 days	It is engaged in the provision of, amongst others, technology consultation services
3.	上海野火網絡科技有限公司 (Shanghai Yehuo Network Technology Co., Ltd.*)	Distribution channel provider and settlement agent	5.3	6.6	2016	60 days	It is engaged in the provision of, amongst others, information network development services and technology consulting services
4.	廣州市艾風微遊網絡科技有 限公司 (Guangzhou Aifeng Aoyou Network Technology Co., Ltd.*)	Distribution channel provider	4.4	5.4	2018	60 days	It is engaged in the provision of, amongst others, information technology consulting services
5.	長沙海陵資訊科技有限公司 (Changsha Haijun Information Technology Co., Ltd.*)	Distribution channel provider	4.2	5.3	2016	60 days	It is engaged in the provision of, amongst others, game software design services and network development services
Total			42.2	52.3			

BUSINESS

9M2019

Rank	Name of supplier	Service provided to our Group	Amount of our Group's cost of sales (RMB million)	% of our Group's cost of sales (%)	Commencement year of our business relationship	Credit period	Background of the supplier
1	Supplier Group Xiaopeng . . .	Distribution channel provider and/or game licensor	37.1	34.4	2018	30 days	The Group is engaged in the provision of, amongst other, information technology consultation services (<i>Note 1</i>)
2	Supplier Group Yunyou . . .	Distribution channel provider	28.8	26.6	2015	60 days	The group is engaged in the provision of, amongst others, information technology consultation services.
3.	Supplier Group Yehuo . . .	Distribution channel provider and/or settlement agent	9.7	9.0	2016	60 days	The group is engaged in the provision of, amongst others, information network development services and technology consulting services
4	北京海樂游信息科技有限公司 (Beijing Taoleyou Information Technology Co., Ltd*)	Distribution channel provider and/or settlement agent	4.5	4.2	2019	30 days	It is engaged in the provision of, amongst others, information technology consultation services (<i>Note 1</i>)
5	廣州市艾風傲遊網絡科技有限公司 (Guangzhou Aifeng Aoyou Network Technology Co., Ltd.*) . . .	Distribution channel provider	4.5	4.2	2018	60 days	It is engaged in the provision of, amongst others, information technology consultation services (<i>Note 1</i>)
Total			84.6	78.4			

Note:

- 1 To the best knowledge of our Directors, (i) 廣州聯手網絡科技有限公司 (Guangzhou Lianshou Network Technology Co., Ltd*) (being one of the Subsidiaries of Supplier Group Xiaopeng) has the registered capital of RMB10 million, with more than 80 employees, and its business spans the PRC nationally with revenue for 2018 that amounted to approximately RMB17 million; (ii) 廣州市艾風傲遊網絡科技有限公司 (Guangzhou Aifeng Aoyou Network Technology Co., Ltd.*)’s registered capital is RMB10 million, with more than 30 employees, and its business spans the PRC nationally with revenue for 2018 that amounted to approximately RMB20 million and (iii) 北京淘樂游信息科技有限公司 (Beijing Taoleyou Information Technology Co., Ltd*) mainly engaged in the provision of among others, information technology consultation services with the registered capital of RMB100 million.

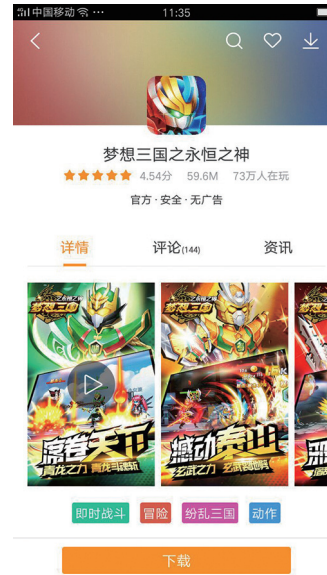
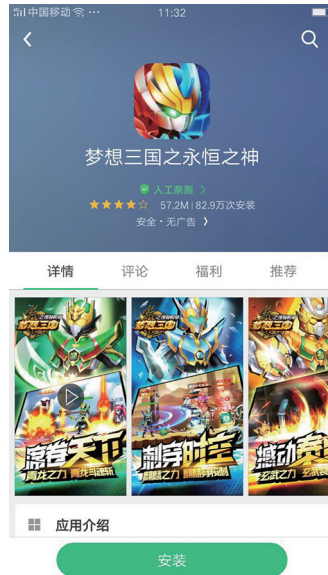
Although we are of the view that we will be able to find suitable alternative distribution channel providers for our mobile games and digital media content providers for our e-magazines, comics and music within a short period of time should we not renew or terminate our relationship with any of our existing distribution channel providers, we strive to maintain stable business relationships with our existing distribution channel providers and content providers.

OUR DISTRIBUTION CHANNEL PROVIDERS

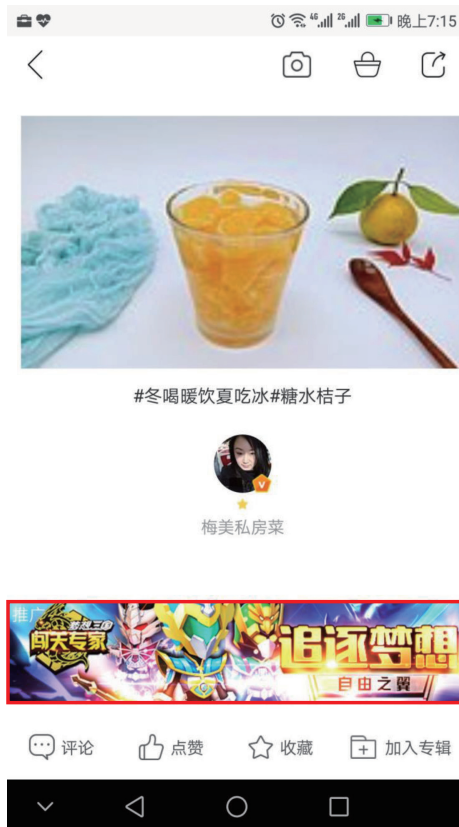
According to the Frost & Sullivan Report, the major categories of distribution channels in the mobile games market in the PRC include third-party app stores, manufacturer-specific app stores, telecommunication app stores, and advertising alliance.

To expedite our distribution prices and extend our outreach to different distribution channels, we engage various distribution channel providers which are experienced and established companies specializing in the distribution of mobile games and digital media content, with extensive network of distribution platforms and advertising alliance which cover third-party apps store in an Android operating system, pop-up advertisements and sponsored links on mobile apps.

Set out below are the screens capture of download page of our mobile games from various distribution platforms operated by the telecommunications operator or phone manufacturers:



Set out below is an illustration of a pop-up advertising link of our game on an app about cookery through advertising alliance:



By clicking the pop-up advertising link in an app, users will be directed to a separate website interface where our mobile games can be downloaded.

For FY2016, FY2017, FY2018 and 9M2019, we had transacted with 71, 71, 78 and 39 distribution channel providers respectively, including several well-established distribution channel providers, such as 上海雪鯉魚計算機科技有限公司 (Shanghai Snowfish Information Technology Company Limited*), 上海辰告信息技術有限公司 (Shanghai Chengao Information Technology Company Limited*) and 上海燦遊信息技術有限公司 (Shanghai Shuoyou Information Technology Company Limited*). We maintain stable business relationships with our distribution channel providers. According to the Frost & Sullivan Report, it is consistent with the industry norm that the games are distributed via different distribution platforms and the advertising alliance.

Management of distribution channel providers

After entering into the distribution agreement with distribution channel providers, our operation team proactively conducts regular discussions with the distribution channel providers on how to optimize our business, as well as gather the players' feedback in relation to our games.

In addition, our operation team undertakes evaluations of the performance of our distribution channel providers including review of user statistics, troubleshooting abilities and effectiveness of marketing strategies, and review, if necessary, the terms of cooperation and renewal of the distribution agreement.

Benefits of our cooperation arrangements with distribution channel providers

Our business strategy is to focus our resources on development and operation of our self-developed and licensed mobile games and digital media content distribution. We engage well-established distribution channel providers to distribute them. We consider the factors set forth below to be beneficial to our business operations, which contributed towards our decision to engage our current distribution channel providers:

- *Flexible promotion strategy in engaging a combination of distribution platforms* – We do not have any contractual relationships with these third-party apps or app stores, nor do we pay them any fees or receive any fees from them. As we are not bound to distribute our games on any particular apps, we are less susceptible to the risk of reliance on a third-party app losing popularity. By leveraging on the expertise of the different distribution channel providers in distributing our games on a combination of distribution platforms, we increase the exposure of our games to a diverse demographic of players.
- *Effective distribution* – we believe that engaging well-established distribution channel providers grant us access to their large existing user base in the PRC. This enables our mobile games and digital media content to be distributed in a cost-effective manner whilst allowing us to focus on our core strengths of mobile game development and operation and digital media content distribution; and

- *Local market knowledge* – we believe that our distribution channel providers are well-established in the industry value chain they operate and in the provinces and regions they serve, which allows us to leverage on their local knowledge of these markets, receive feedback and in a timely manner, information in relation to the evolving preferences in those markets as well as whether updates may be required for our mobile games and digital media. In addition, we believe that leveraging on their local market knowledge enables us to extend the life cycle of our games and maintain a competitive portfolio of games and a loyal user base.

During the Track Record Period and up to the Latest Practicable Date, there was no material dispute between our Group and any of our distribution channel providers.

Selection of suppliers

We typically source new suppliers based on our in-depth industry knowledge as well as independent research. Set out below are our selection criteria of a new supplier:

Mobile games			Digital media content	
Entertainment properties licensors	Game developers	Distribution channel providers	Content providers	Distribution channel providers
<ul style="list-style-type: none"> whether the entertainment properties have established reputation or received market recognition compatibility of the entertainment properties with mobile games valid and legal ownership to the entertainment properties 	<p><i>In respect of licensed games:</i></p> <ul style="list-style-type: none"> the reputation and its capability in developing mobile games whether the genres and the quality of the games meet the specifications of our Group valid and legal ownership to the entertainment properties 	<ul style="list-style-type: none"> its brand, user base, reputation, track record, qualification such as licenses and permits, platform stability, and operational capability its main operating and marketing strategy the amount of fees charged or the profit sharing arrangement 	<ul style="list-style-type: none"> focus on mainstream magazines, with a diverse genres ranging from lifestyle, health leisure and covering all age groups whether the magazines have obtained all the necessary registration and licenses valid and legal ownership to the entertainment properties whether the magazines have been awarded prizes 	<ul style="list-style-type: none"> its brand, reputation, track record, qualification such as licenses and permits, platform stability, and operational capability its main operating and marketing strategy the amount of fees charged or the profit sharing
	<p><i>In respect of co-development of games:</i></p> <ul style="list-style-type: none"> the capability of in developing mobile games and the ability to complete the research and development tasks in accordance with our timeline resources and background quality of after sales service and maintenance services 			
	<p><i>In respect of acquisition of a perpetual licence of the source code:</i></p> <ul style="list-style-type: none"> the genres and the language of the source code whether the source code is complete and free from virus the capability in developing mobile games quality of after sales service and maintenance services 			

BUSINESS

Key contractual terms with the suppliers

The table below summarizes the key contractual terms with our suppliers:

Type of suppliers	Type of agreement	Major terms of agreement
Distribution channel provider (other than China Mobile Internet and its affiliates)	Distribution agreement for promoting and distributing mobile games on various channels in the PRC	<ul style="list-style-type: none"> • non-exclusive distribution arrangement • we are responsible for providing technological support for the mobile games, including the system for collecting the transactional data and a proper layout and functioning of the mobile games, as well as liaising with the settlement agents and distribution channels • we typically retain 70% to 99% of the gross billings from our settlement agents and depending on the respective agreements we typically pay 20% to 75% of the net receipt to the relevant distribution channel provider • for single-player mobile games, we shall send the transaction records before the 20th day of the following month to the relevant distribution channel provider for confirmation within 10 days; for multi-player mobile games, typically we shall send transaction records on the 9th and 19th day within the month and the 1st day of the following month to the relevant distribution channel provider for confirmation within one to two days • for single-player mobile games, we shall pay the relevant distribution channel providers upon receiving its invoice within 60 days; for multi-player mobile games, typically we shall pay the relevant distribution channel providers one to two days after the relevant distribution channel provider confirms the transaction records • the term of the agreements ranged from nine months to four years. Upon expiry of the agreement, the parties can negotiate for renewal. Should there be any fraud in the transaction data reported by us, the distribution channel provider have the right to terminate the agreements

BUSINESS

Type of suppliers	Type of agreement	Major terms of agreement
Distribution channel provider (other than China Mobile Internet and its affiliates)	Distribution agreement for promoting and distributing digital media content on advertising alliance in the PRC	<ul style="list-style-type: none"> • non-exclusive distribution arrangement • we are responsible for providing technological support for the digital media content and we warrant that the content does not violate any intellectual property rights of third parties • the term of the agreements is typically two years • we will retain a specified percentage of the net proceeds we received from our settlement agents and pay the rest to the relevant distribution channel provider • the credit period is usually 60 days
Third-party game developer	Agreement to obtain the perpetual licence and the source code	<ul style="list-style-type: none"> • the licensor typically grants us a perpetual licence to distribute, modify or adapt the games • an one-off payment of licence fee • payment upon the launch of the games on the third-party apps in an Android operating system as well as Android app stores • we shall be responsible for operating the games, including providing introduction and instructions about the games, maintaining the safety and quality of the games including checking for virus and inappropriate content
Third-party game developer	Licence agreement for operating the licensed games developed by third-party game developer	<ul style="list-style-type: none"> • exclusive licence agreement • licence period of one to two years • we shall pay a specified sum (usually on a monthly basis) based on the amount received from the settlement agent for the licensed games and may include an additional fixed amount after the licensed game reaches a certain milestone of popularity

BUSINESS

Type of suppliers	Type of agreement	Major terms of agreement
Third-party game developer	Cooperation agreement for game development	<ul style="list-style-type: none"> depending on negotiation with the relevant third-party developer, our Group and the relevant third-party developer would divide the work amongst themselves including the design and artwork of the games, liaising with distribution channel providers the relevant third-party developer and our Group would be entitled to the portion of the revenue from the distribution channels which they were responsible for liaising the relevant third-party developer and our Group would bear the costs arising from the responsibilities assigned to them the agreement typically lasts for one year with an automatic renewal of one year upon expiry the agreement can be terminated if either party failed to correct its breach of the contract terms within a certain number of days
Entertainment properties licensor	Licence agreement with the licensors of the entertainment properties	<ul style="list-style-type: none"> duration of the licence generally lasts for two years, among which the first game must be launched by the end of the first year the licensor has the right to oversee the quality and content of the games so developed, as well as to request us to submit the relevant data of the games we are required to pay an upfront minimum guarantee payment to the licensor and the royalty fee is calculated with reference to an agreed percentage on the gross billings of the revenue arising from the games, which can be offset against the minimum guarantee payment paid, and any additional royalty payments shall be paid by our Group to the licensor the royalty payment would be paid quarterly

BUSINESS

Type of suppliers	Type of agreement	Major terms of agreement
Digital media content provider	Licence agreement with the digital media content provider in respect of magazine content	<ul style="list-style-type: none"> • content provider warrants that it is the original copyright owner of the content • non-exclusive licence is typically granted to us with the right to distribute the content within the PRC, excluding Hong Kong, Macau and Taiwan. We do not have the right to alter or change the content • licence fees is generally calculated on annual basis from RMB1,500 to RMB60,000 per magazine title • the license period is typically two to three years and most can be extended for another year by mutual agreement • the contract may be terminated under force majeure events

OUR RELATIONSHIP WITH CHINA MOBILE INTERNET AND ITS AFFILIATES

(I) Commencement of Our Relationship with China Mobile Internet

China Mobile Internet is an indirect wholly-owned subsidiary of China Mobile Limited, a company listed on the Stock Exchange and the New York Stock Exchange. While this leading telecommunication services provider provides telecommunication services covering 31 provinces, autonomous regions and directly-administered municipalities throughout PRC and had 925.1 million users in 2018, China Mobile Internet, as one of its specialized subsidiaries, is engaged in the provision of value added telecommunications services.

In 2011, we established our business relationship with China Mobile Internet which acted as our major settlement agent to collect subscription fees of our digital media content and distribution channel provider for free to provide access their distribution platform, in order to leverage on the vast network and large customer base of China Mobile Internet. According to Frost & Sullivan Report, mobile phone billing is the most popular payment platform in the PRC in 2011.

From 2014, we started our mobile games business. With the established relationship with China Mobile Internet since 2011, we expanded our scope of cooperation with China Mobile Internet and/or its affiliates which acted as both our major settlement agent (please see the paragraph headed "(II) Settlement Service" in this sub-section for details) and our distribution channel provider (please see the paragraph headed "(III) Distribution Channel Provider" in this sub-section for details) for collecting revenue generated from the sales of virtual items of our Single-player mobile games on a non-exclusive basis. For FY2016, FY2017, FY2018 and 9M2019, 99.4%, 99.8%, 98.6% and 71.4% of our total revenue were collected through China Mobile Internet and its affiliates.

(II) Settlement Services***Digital Media Content***

Since 2011, China Mobile Internet acted as our major settlement agent to collect subscription fees of our digital media content and distribution channel provider for free to provide access their distribution platform. China Mobile Internet and its affiliates would typically retain 30% of the gross billings paid by the end users and only subscribers who are customers of China Mobile Internet and/or its affiliates can access the publishing platform of China Mobile Internet and/or its affiliates to read the digital media content.

Since the publishing platform is linked to the mobile phone network users of the largest telecommunication operator in the PRC, the users who wish to subscribe for these digital media content would make payment through China Mobile Internet and/or its affiliates, which charges the relevant subscription amount to their mobile telephone bill, and China Mobile Internet and/or its affiliates would also send a SMS to the relevant user confirming the payment through the mobile carrier network.

Single-Player mobile games***Before the commencement of payment function via the Leading Mobile Payment Platform A***

Since 2014, China Mobile Internet and/or its affiliates acted as both our major settlement agent and our distribution channel provider for collecting revenue generated from the sales of virtual items of our single-player mobile games on a non-exclusive basis.

China Mobile Internet and/or its affiliates would retain 30% of the gross receipt from the players. Although all our Group's mobile games are free-to-download and free-to-play by the public (whether they are customers of China Mobile Internet and/or its affiliates or not), substantially all of our Group's customers during FY2016, FY2017, FY2018 were customers of China Mobile Internet and its affiliates. China Mobile Internet was not included as one of the top five suppliers of our Group during the Track Record Period since revenue collection through China Mobile Internet and/or its affiliates was measured on net basis, being net amounts after deduction of 30% of gross receipt from the players retained by China Mobile Internet and/or its affiliates.

While the games are free to download and play, we offer our players a limited number of virtual items free of charge as a basic gameplay in our games, whereas other virtual items will not be activated until the players make the purchase. When players choose to purchase these virtual items, they would make payment through China Mobile Internet and/or its affiliates, which charges the relevant purchase amount to their mobile telephone bill, China Mobile Internet and/or its affiliates would also send a SMS to the relevant player confirming such payment through the mobile carrier network.

BUSINESS

As China Mobile Internet and/or its affiliates act as the settlement agent for our Group, it would also provide settlement related services to our Group, including calculation of the relevant fees, generation of the list of purchase record of virtual items in mobile games, in-game data in relation to players' gameplay and consumption activities and subscriptions.

Our Group has chosen China Mobile Internet and/or its affiliates as its settlement agent notwithstanding we can directly transact with distribution channels and other online payment channels for the following reasons:

- (1) The holding company of China Mobile Internet has the largest number of users in the PRC in 2018 according to the Frost & Sullivan Report. According to the Frost & Sullivan Report, China Telecom recorded growth from 160.6 million users in 2013 to 303.0 million users in 2018, representing a CAGR of 13.5%; China Unicom recorded slight increase from 239.3 million users in 2013 to 315.0 million users in 2018, representing a CAGR of 5.7%; the holding company of China Mobile Internet recorded growth from 710.3 million users in 2013 to 925.1 million users in 2018, representing a CAGR of 5.4%. Our Directors are of the view that as the holding company of China Mobile Internet have the largest and most dynamic users base amongst all these three telecommunication operators in the PRC, such heavy traffic in the download platform of China Mobile Internet and/or its affiliates will expose our Group's games to an extensive player base;
- (2) According to Frost & Sullivan Report, mobile phone billings is one of top three most popular payment methods in the PRC in respect of mobile gaming since 2015 and up to 30 September 2019;
- (3) Through our cooperation with China Mobile Internet and its affiliates, our Group is also able to access its various distribution platforms for both our mobile games and digital media content, and the publishing platform for our digital media content;
- (4) our Directors believe that the heavy traffic in the download platform of China Mobile Internet and its affiliates successfully expose our games which are available for download on the app stores of China Mobile Internet and/or its affiliates to an extensive player base; and
- (5) We have a long established business relationship with China Mobile Internet since 2011 which developed mutual trust and allowed relatively smooth cooperation, and thus it is reasonable commercially for us to utilize their settlement services in the past during the Track Record Period and onward.

After the commencement of payment function via the Leading Mobile Payment Platform A

In line with the changing industry trend, since April 2019 China Mobile Internet has commenced a payment function via the Leading Mobile Payment Platform A. Our single-player mobile games players can now choose to use either (i) traditional mobile phone billing; or (ii) via the Leading Mobile Payment Platform A to purchase our virtual items, where China Mobile Internet would retain 30% or 5%, as the case may be, of the gross receipt from the players, resulting in a higher net receipt for our Group due to a lower rate of service fee charged by China Mobile Internet. While our Group has and will continue to explore cooperation opportunities with new settlement agents in light of the evolving of new payment methods over time, the Directors consider it is commercially justifiable for the Group to continue its business relationship with China Mobile Internet and/or its affiliates as mobile phone billing is still one of the top three most popular payment methods in the PRC in respect of single-player mobile gaming as of 30 September 2019 according to the Frost & Sullivan Report.

The new payment arrangement is made between China Mobile Internet and the Leading Mobile Payment Platform A for all the single-player mobile games. Payment collected from players by this platform would first be settled with China Mobile Internet and China Mobile Internet would then settle the payment collected from the Leading Mobile Platform A with our Group. In other words, China Mobile Internet would retain 5% of the gross billings of the Group, and the Group would not pay any service fee to the Leading Mobile Payment Platform A. To the best knowledge of the Directors, since China Mobile Internet has reduced its settlement service workload by cooperating with the Leading Mobile Payment Platform A, which in turn has reduced its resources required for acting as a settlement agent of the Group, as a result, a lower rate of service fee could be charged by China Mobile Internet. China Mobile Internet and/or its affiliates remain responsible to provide in-game data in relation to players' gameplay and purchase activities for our single-player mobile games. Please refer to the paragraphs headed "Our business is dependent on our monetization measures and ability to identify the types of mobile games and digital media content" in this section for details.

(III) Distribution Channel Provider

Since our commencement of digital media content distribution business in 2011, China Mobile Internet and/or its affiliates acted as our distribution channel provider for free to provide relevant links for our digital media content for readers to subscribe.

Since 2014, as we started our mobile games business, China Mobile Internet and/or its affiliates begun to act as our distribution channel provider by allowing us to place our mobile games on their distribution platforms for players to download during the Track Record Period for free, while our other distribution channel providers typically charge 20%-70% of our net receipt.

(IV) Benefits of building close and long-term business relationship with China Mobile Internet and its affiliates

We consider that it is commercially beneficial to build up close and long-term business relationships with China Mobile Internet and its affiliates, which acted as our major settlement agent and distribution channel provider for our mobile games and digital media content. According to the Frost & Sullivan Report, China's mobile carrier network are dominated by three major companies, and of which, the holding Company of China Mobile Internet recorded growth from 710.3 million users in 2013 to 925.1 million users in 2018, representing a CAGR of 6.8%. We believe that our reliance on China Mobile Internet and its affiliates simply reflects and is a resultant of the substantial share of China Mobile Internet and its affiliate in the relevant market.

We have maintained a close working relationship with China Mobile Internet and its affiliates. Having partnered with China Mobile Internet and its affiliates, we were able to leverage on the vast network and customer base of the largest telecommunication service provider in the PRC to distribute our mobile games and digital media. Our Directors believe that the close working relationship between our Group and China Mobile Internet and its affiliates enables us to leverage on the synergy arising from our cooperation in the distribution of mobile games and digital media to broaden our existing market share in the PRC, provides a source of customers to our Group, our Directors consider that our cooperation would enhance our reputation and facilitate our future development. As such, it is our Directors' intention to continue to maintain our long-term cooperative relationship with China Mobile Internet and its affiliates.

Our Directors believe that the likelihood that our business relationship with China Mobile Internet and/or its affiliates will materially adversely change or terminate is low because of our long-established and well-maintained relationship with China Mobile Internet and/or its affiliates since 2011. More importantly, we believe that there is mutual benefit between us and China Mobile Internet and its affiliates. On one hand, our mobile games and digital media content have enriched the portfolio of digital media content collection of China Mobile Internet and its affiliates for its users, on the other hand, we enjoy China Mobile Internet and/or its affiliates' distribution channel provider services for free during the Track Record Period. In addition, according to the Frost & Sullivan Report, leisure, sports and strategy including endless run, elimination and strategy and mind challenge games is the most popular category in 2017 and accounted for 73% of the single-player mobile games in China, increasing from 64.0% in 2016 to 73.0% in 2017. There are also a rising trend in the number of adventure games and collectible card game/trading card game which accounted for 4% and 7% of the single-player games, respectively, in 2017, and given that we have a wide portfolio of single-player mobile games, of which involve popular genres, such as strategy and mind challenge games and adventure games, it facilitates the interest of the telecommunications operators to maintain a diversified pool of games and digital media developed by experienced industry players for their customers.

The revenue we collected through China Mobile Internet and/or its affiliates also brought considerable return to them, given that China Mobile Internet and/or its affiliates would typically retain 5% or 30%, as the case may be, of the gross billings paid by the end users. With our plan to roll out more mobile games and other digital media contents in the future, it is likely that China Mobile Internet and/or its affiliates would be willing to continue with the cooperation arrangements with our Group.

As for the internal operation policies of China Mobile Internet and/or its affiliates, the policies are merely for the purpose of managing its authorized providers, and our Directors are of the view that it would be highly unlikely that China Mobile Internet and/or its affiliates would terminate the relationship with our Group due to the occasional deviation from the internal operation policies. As both China Mobile Internet and/or its affiliates and our Group have invested a considerable amount of financial resources, effort and time to establish such mutually beneficial working relationship, and thorough understanding of the arrangements between China Mobile Internet and/or its affiliates and our Group has been developed over a long period of constant communication and cooperation, our Directors are of the view that our relationship with China Mobile Internet and/or its affiliates is mutual and complementary, and it is commercially unjustifiable for China Mobile Internet and/or its affiliates to cease the working relationship with our Group.

OUR SETTLEMENT AGENTS

Apart from China Mobile Internet and its affiliates since 2014, in 2017, we started to expand our payment channel options to include settlement agents operated by other telecommunication service providers and mobile phone manufacturers. For details of our revenue recognition policies, please see note 3 to the Accountants' Report set out in Appendix I to the prospectus. Having partnered with telecommunication operators in the PRC, our Group is able to extend our market reach to national level, and players or readers can easily access to our mobile games and e-magazines. Players of our mobile games and readers of our e-magazines would be able to purchase virtual items and subscribe for our digital media content anywhere in the PRC with the coverage of the network of the largest PRC telecommunication operator and thus building players' loyalty. We have also built up the confidence amongst the renowned periodical publishers to engage our distribution service with our experience in online distribution.

In light of the evolving trend of payment method over time and to diversify our payment channels, from January 2019, we further cooperated with the Leading Mobile Payment Platforms in respect of payment collection for multi-player mobile games, players could pay directly through these payment platforms to us without going through China Mobile Internet or its affiliates, which attributable to approximately 27.2% of our total revenue in 9M2019. We typically retain 70% to 99% of the gross billings from our other settlement agents. Despite that we are not currently using China Mobile Internet or its affiliate as settlement agent for our multi-player mobiles games according to our business strategy to diversify our payment and settlement channels, we would not preclude that we would use them as settlement agent for our multi-mobile games in the future.

BUSINESS

According to the Frost & Sullivan Report, with the advancement in mobile technology and the technological infrastructure of the PRC, mobile payment is becoming increasingly popular due to its convenience to use.

Salient terms of the agreement with China Mobile Internet

Scope of services	The settlement agent or its designated party shall be responsible for settlement and payment services in respect of various digital media content including games, music, e-magazines etc. published on the telecommunication operator app stores, distribution platform, and/or publishing platform.
Parties' responsibilities	The settlement agent or its designated party shall process and provide its settlement and payment services and provide necessary maintenance and upgrade of the system. We shall ensure that we have the necessary licence and permits for carrying out our business and maintain the quality of our games.
Settlement arrangement	Typically, 30% of the settlement amount received would be retained by the settlement agent or its designated party and the remaining 70% would be transferred to us for our revenue. Settlement amount shall be confirmed between us and the settlement agent by the end of next month. Such payment shall be settled within a month after confirmation.
Termination and renewal	The agreements usually last for 12 months, and there is no specific provision on renewal. In the event of breach of any clause without timely rectification, the non-defaulting party shall have the right to terminate the agreement.

Fund flow and billings sharing between us, China Mobile Internet and its affiliates and other settlement agents or distribution channel providers

For both mobile games and digital media content distribution, China Mobile Internet and its affiliates would typically retain 30% of the gross billings paid by the end users.

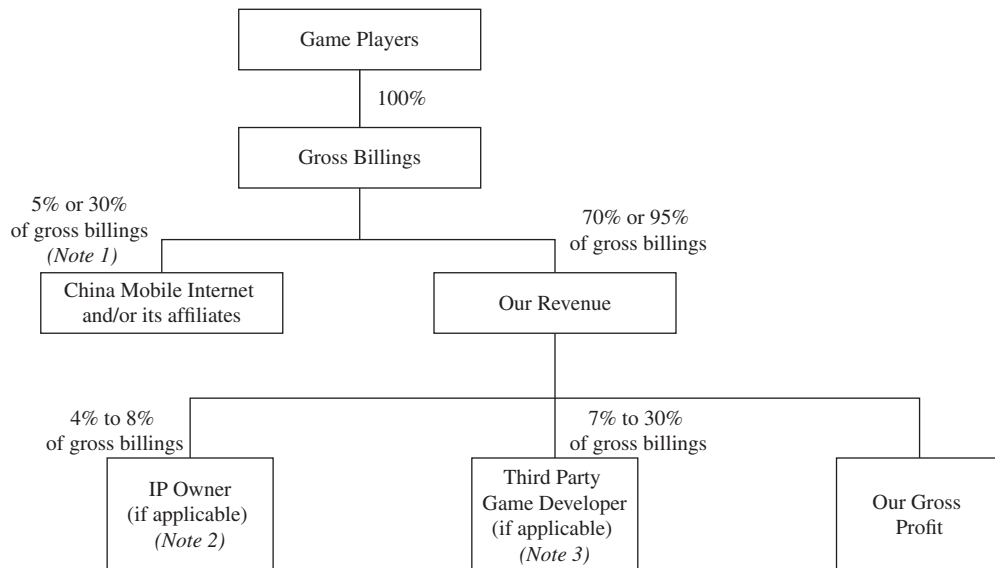
We chose China Mobile Internet as our major settlement agent and cooperating partner which charged higher as compared to recently emerging settlement agents such as two of the Leading Mobile Payment Platforms, since (i) its affiliates had the largest mobile phone user base with heavy user traffic in China for us to distribute our mobile games and to capture a large pool of potential paying players; and (ii) we have maintained a long-established and

BUSINESS

well-maintained relationship with China Mobile Internet since 2011 and have achieved an optimal reciprocal pattern to maximize profits, reduce costs and mitigate risks on a mutual basis. Notwithstanding the rising popularity of more diversified settlement methods for mobile phone users, our Group actively seek for opportunities to cooperate with more settlement agents. For a newly launched multi-player mobile game of our Group in January 2019, we engaged the Leading Mobile Payment Platform A and the Leading Mobile Payment Platform B without through as our settlement agents. China Mobile Internet also commenced a payment function via the Leading Mobile Payment Platform A which players of our single-player mobile games can choose to use since April 2019. Furthermore, our Group also intends to add a payment function of a Leading Mobile Payment Platform for our e-magazines upon the completion of upgrading of our publishing platform in the near future. During the Track Record Period and up to the Latest Practicable Date, in accordance with the respective terms of the service agreements, the Leading Mobile Payment Platforms and China Mobile Internet using payment function via the Leading Mobile Payment Platform A would retain 1% and 5% of the gross billings paid by the end users respectively.

Depending on the agreements with different distribution channel providers, we would typically retain 20% to 50% of the net receipt received by us and pay remaining portion to the distribution channel providers, IP owners and/or licensors, as detailed in the diagrams below.

For Single-player Mobile Games with China Mobile Internet and/or its affiliates as our settlement agent and distribution channel provider



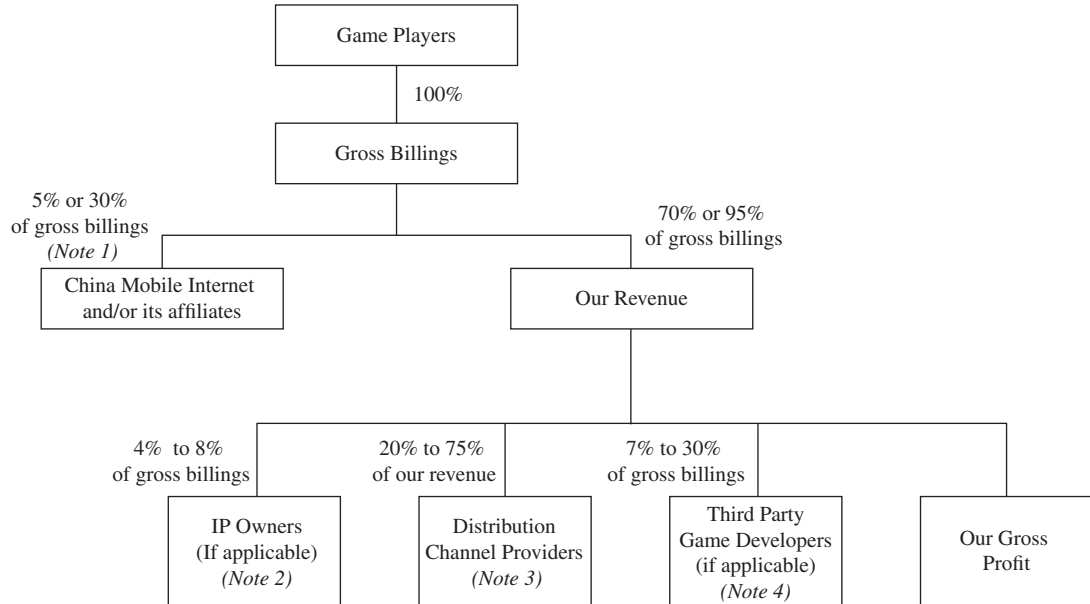
Notes:

- (1) China Mobile Internet and/or its affiliates, which acts as our settlement agent and distribution channel provider, would retain 30% of the gross billings. Where players pay through China Mobile Internet's payment function via the Leading Mobile Payment Platform A, China Mobile Internet and/or its affiliates would retain 5% of the gross billings.
- (2) Our Group is required to pay an upfront minimum guarantee payment to the licensor and the royalty fee is calculated with reference to an agreed percentage on the gross billings of the revenue arising from the games, which can be offset against the minimum guarantee payment paid, and any additional royalty payments shall be paid by our Group to the licensor. Please see the paragraph headed "Key contractual terms with the suppliers" of this section for details.

BUSINESS

- (3) Under the cooperation agreement for game development, the relevant third-party game developer and our Group would be entitled to the portion of the revenue from the distribution channels which they were responsible for liaising. Please see the paragraph headed “Key contractual terms with the suppliers” of this section for details.

For Single-player Mobile Games with China Mobile Internet and/or its affiliates as our settlement agent

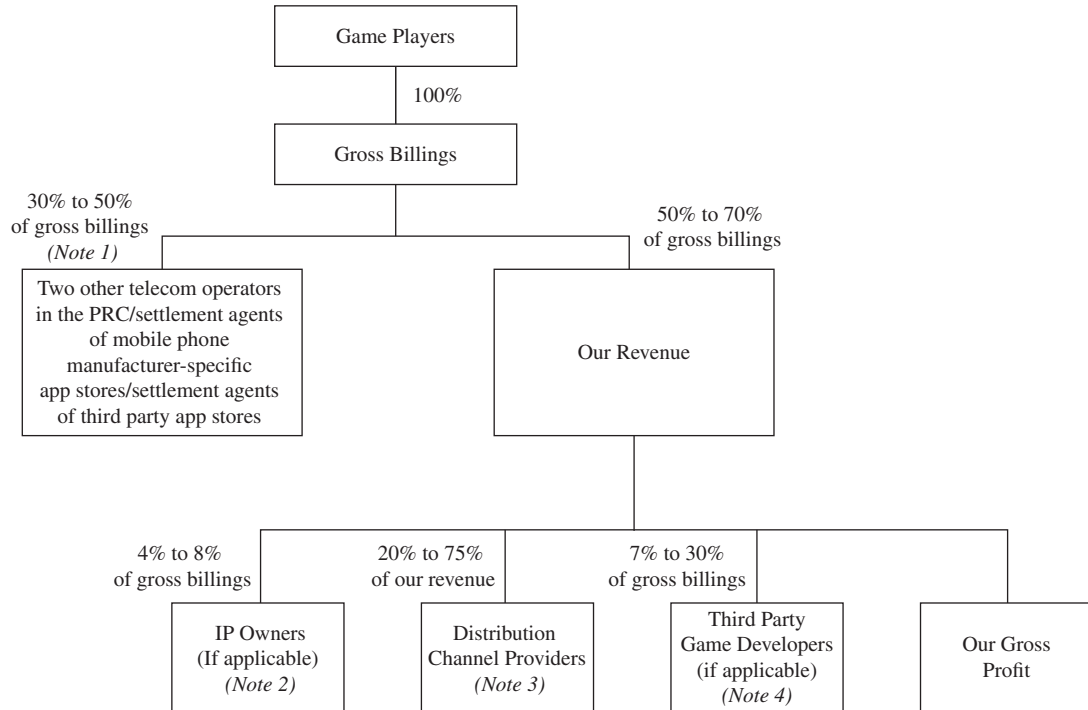


Notes:

- (1) China Mobile Internet and/or its affiliates, which acts as our settlement agent, would retain 30% of the gross billings. Where players pay through China Mobile Internet’s payment function via the Leading Mobile Payment Platform A. China Mobile Internet and/or its affiliates retain 5% of the gross billings.
- (2) Our Group is required to pay an upfront minimum guarantee payment to the licensor and the royalty fee is calculated with reference to an agreed percentage on the gross billings of the revenue arising from the games, which can be offset against the minimum guarantee payment paid, and any additional royalty payments shall be paid by our Group to the licensor. Please see the paragraph headed “Key contractual terms with the suppliers” of this section for details.
- (3) Our Group engages various distribution channel providers which are experienced and established companies specializing in the distribution of mobile games and digital media content. Please see the paragraph headed “Our Distribution Channel Providers” of this section for details.
- (4) Under the cooperation agreement for game development, the relevant third-party game developer and our Group would be entitled to the portion of the revenue from the distribution channels which they were responsible for liaising. Please see the paragraph headed “Key contractual terms with the suppliers” of this section for details.

BUSINESS

For Single-player Mobile Games without China Mobile Internet and/or its affiliates as our settlement agent and distribution channel provider

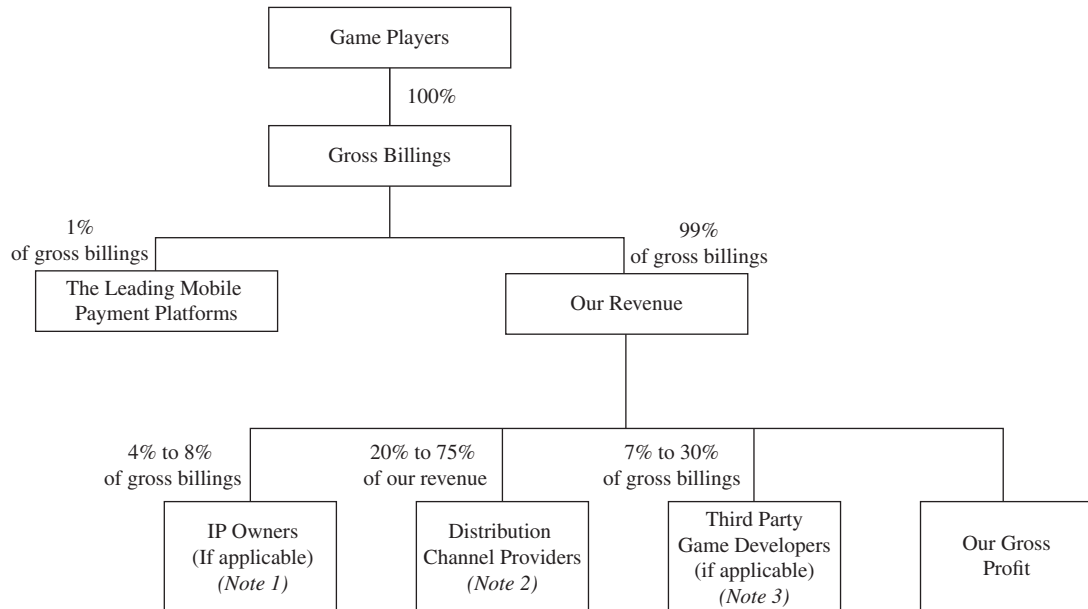


Notes:

- (1) During the Track Record Period, two other telecom operators in the PRC retained 30% of the gross billings paid by the end users; all settlement agents of mobile phone manufacturer-specific app stores retained 30% of the gross billings paid by the end users; and settlement agents of third party app stores generally retained 30% to 50% of the gross billings paid by the end users.
- (2) Our Group is required to pay an upfront minimum guarantee payment to the licensor and the royalty fee is calculated with reference to an agreed percentage on the gross billings of the revenue arising from the games, which can be offset against the minimum guarantee payment paid, and any additional royalty payments shall be paid by our Group to the licensor. Please see the paragraph headed “Key contractual terms with the suppliers” of this section for details.
- (3) Our Group engages various distribution channel providers which are experienced and established companies specializing in the distribution of mobile games and digital media content. Please see the paragraph headed “Our Distribution Channel Providers” of this section for details.
- (4) Under the cooperation agreement for game development, the relevant third-party game developer and our Group would be entitled to the portion of the revenue from the distribution channels which they were responsible for liaising. Please see the paragraph headed “Key contractual terms with the suppliers” of this section for details.

BUSINESS

For Multi-player Mobile Games



Notes:

- (1) Our Group is required to pay an upfront minimum guarantee payment to the licensor and the royalty fee is calculated with reference to an agreed percentage on the gross billings of the revenue arising from the games, which can be offset against the minimum guarantee payment paid, and any additional royalty payments shall be paid by our Group to the licensor. Please see the paragraph headed “Key contractual terms with the suppliers” of this section for details.
- (2) Our Group engages various distribution channel providers which are experienced and established companies specializing in the distribution of mobile games and digital media content. Please see the paragraph headed “Our Distribution Channel Providers” of this section for details.
- (3) Under the cooperation agreement for game development, the relevant third-party game developer and our Group would be entitled to the portion of the revenue from the distribution channels which they were responsible for liaising. Please see the paragraph headed “Key contractual terms with the suppliers” of this section for details.

Penalty policy of China Mobile Internet and its affiliates and our rectification measures

As set out in “History, Reorganization and Group Structure — Our Group Structure and Historical Trust Arrangements — Rationales for the group structure and trust arrangements” China Mobile Internet and its affiliates, which served as our major settlement agent and distribution channel provider for our mobile games and digital media, has adopted a management system in relation to its “authorized provider”.

During the Track Record Period and up to Latest Practicable Date, we have been penalized by China Mobile Internet and/or its affiliates 32, 23, 21, 3 times for FY2016, FY2017, FY2018, 9M2019 and up to the Latest Practicable Date, due to various incidents arising deviation from the rules of China Mobile Internet and its affiliates in operation and promotion of our games primarily include misconduct of the distribution channels and irregularities in the players’ behavior. Total penalty imposed by China Mobile Internet and/or

its affiliates amounted to RMB0.2 million, RMB25,397, RMB0.8 million and nil for FY2016, FY2017, FY2018 and 9M2019, respectively, which amounts were immaterial as compared to total revenue and net profit of our Group during the corresponding years. According to the Frost & Sullivan report, it is industry norm for settlement agents, distribution channels and other online payment channels in the PRC to have similar penalty policies.

China Mobile Internet and/or its affiliates would deduct marks for our relevant Consolidated Affiliated Entity operating the particular game when any of the above incidents were found. Depending on the aggregated marks deducted, China Mobile Internet and/or its affiliates could impose different penalties against us, such as (i) delaying payment to us for up to approximately three months; (ii) suspending operation of the games by our relevant Consolidated Affiliated Entity for up to approximately three months; and (iii) terminating settlement agreement with our relevant Consolidated Affiliated Entity. For FY2016, FY2017, FY2018 and 9M2019, 34, nil, nil and nil of our Group's games were suspended by China Mobile Internet and/or its affiliates, respectively, during the corresponding period. Our Directors believe that the companies within our Group whose settlement agreements have been terminated possess the relevant licences and permits to conduct the business, and we are able to resume our service arrangement with China Mobile Internet and/or its affiliates or explore other settlement services. As at the Latest Practicable Date, we have, after considering our business needs and our strategy to streamline our corporate structure, decided to resume our settlement arrangement for two out of nine of the aforesaid companies within our Group with China Mobile Internet and/or its affiliates. Further, as at the Latest Practicable Date, based on the business needs and commercial decision of our Group, three of the games suspended by China Mobile Internet and/or its affiliates were selected by us to apply for resumption and all of them have been resumed successfully.

Pursuant to China Mobile Internet's internal policies, deduction of marks can be due to various grounds as set out in the aforesaid policies, and whenever 100 marks of the relevant entity are deducted in one single-punishment, China Mobile Internet and/or its affiliates has the right to terminate the agreement with the relevant entity. For FY2016, FY2017, FY2018, 9M2019 and up to the Latest Practicable Date, four, nil, nil, nil, nil and nil settlement agreements were terminated by China Mobile Internet and its affiliates, respectively, during the corresponding period. In respect of the four settlement agreements terminated by China Mobile Internet and/or its affiliates, the involved Consolidated Affiliated Entities cannot re-enter into agreements with China Mobile Internet and/or its affiliates; however, our Group is able to enter into new settlement agreements with China Mobile Internet and/or its affiliates via our other Consolidated Affiliated Entities for the relevant mobile games to continue the operation of the mobile games and distribute the mobile games through other distribution platforms that are not related to China Mobile Internet and/or its affiliates. To the best of our Directors' knowledge and belief, circumstances under which China Mobile Internet and/or its affiliates may impose penalty on us include, amongst others, (i) insertion of unauthorized codes into the Android software development kit of our mobile games, which affected the calculation formula of user's purchases or embedded digital advertisements in the relevant mobile games; (ii) negative media coverage of users' complaints of our mobile games; (iii) inappropriate processing of users' payments resulting repeated purchases; (iv) high user

complaint rate that exceeds the minimum standards stipulated by China Mobile Internet and/or its affiliates; (v) non-compliant operations and products promotions through unauthorized channels or uncontrollable third-party channels by our Group or distribution channel providers; and (vi) unusual distributions or high concentration of revenues only recognized in particularly few regions or during specific period of time of a day.

Our Directors confirm that the aforesaid circumstances arose due to acts of other parties instead of our Group. For example, our Directors believe that the insertion of unauthorized codes and digital advertisements were done by the distribution channel providers without our knowledge, and allegations of processing repeated purchases by us were merely complaints lodged by the players and were not verified by China Mobile Internet and/or its affiliates, which our Directors believe that some of the aforesaid were malicious attacks by our competitors. Our Group believes that the distribution platforms engaged by the distribution channel provider are the ones which conducted the aforesaid non-compliant action and they were able to do so without the authorisation of our Group because we do not have direct access to and are not aware of the identities of such distribution platforms. As part of the commercial arrangement and consistent with the market practice, our Group entrusts the distribution channel provider to directly distribute on the distribution platforms and the distribution channel provider does not reveal the identities of such distribution platforms. Despite the fact that our Group does not have direct control over the distribution platforms, our Group has implemented internal control policies to monitor the compliance of each Consolidated Affiliated Entity in respect of the China Mobile Internet internal policies. Our Group has continued to take remedial measures in respect of the aforesaid non-compliant action and take preventive measures in respect of possible breaches, including communication with distribution channel providers and request them to strictly comply with the China Mobile Internet internal policy. Our Group would delay the payment settlement or terminate the agreement with the involved distribution channel providers. For further details of the internal policies and our rectification measures, please see the section headed “History, Reorganization and Group Structure - Rationales for the group structure and trust arrangements”.

Our Directors are of the view that the abovementioned termination of settlement agreements does not have material adverse impact on our Group’s operations and business during the Track Record Period on the following grounds:

- The aggregate revenue that we derived from the four terminated settlement agreements in FY2016 was RMB5.9 million, which represented 5.1% of our mobile game development and operation revenue in FY2016. The impact of the four terminated settlement agreements in FY2016 was immaterial when compared to our total revenue and our mobile game development and operation revenue also increased from RMB116.5 million in FY2016 to RMB151.1 million in FY2017, respectively;
- In line with the industry practice, in order to prevent interruption to our game operation, we operate our different games by different Consolidated Affiliated Entities, such that we could continue to operate the game by another Consolidated

Affiliated Entity in case the settlement agreement of the relevant entity was terminated by China Mobile Internet and/or its affiliates. By adopting such business structure, our Group is able to minimize the chances of being maliciously targeted by our competitors and effectively diversify our risk exposures so that such risks will not be over-exposed in one particular Consolidated Affiliated Entity. Since our Group is not precluded from operating the games by our other Group Companies, we will be able to operate those games later in our other Group Companies if our Directors are of the view that it is commercially justifiable to do so.

- In response to China Mobile Internet's internal policies, we have also adopted various rectification measures to prevent future occurrence of the incidents, including (i) adopting more stringent criteria in the selection of distribution channel providers; (ii) enhancing the monitoring, supervision and documentation over the distribution channel providers and terminate our cooperation with those failing to perform to our satisfaction; (iii) establishing a customer service hotline for players to handle their enquiries and complaints directly; (iv) setting a time limit for conducting game purchase continuously to prevent repeated purchase; and (v) enhancing security control of our system to prevent malicious hacking. In particular, in detecting and mitigating insertion of unauthorized codes and digital advertisements in our mobile games arising from the distribution channel providers, our Company has taken specific measures such as: (i) to detect periodically and randomly download mobile games of our Group from different channels/platforms to check for such any insertion of unauthorized codes and digital advertisements; (ii) to issue warnings against all the distribution channel providers which involve in the distribution of the mobile game in question; (iii) to conduct technical improvements in the Android software development kit of our mobile games by enhancing the security code in order to reduce the possibilities of tampering; and (iv) to perform periodic assessments on the distribution channel providers which may result in the termination of engagements with poor-performing providers. As a result, the number of penalty imposed to us has been reducing significantly during the Track Record Period and no terminations of settlement agreements with China Mobile Internet and/or its affiliates were perceived by our Group since FY2016.

Our PRC Legal Advisers are of the view that, the penalty imposed by the China Mobile Internet and its affiliates is only their internal policy, and therefore such penalty did not violate any laws or regulations in the PRC. Based on the above, our Directors are of the view, and the Sole Sponsor concurs, that the above incidents and penalty imposed by China Mobile Internet and its affiliates will not materially affect our business operation.

Our business is dependent on our monetization measures and ability to identify the types of mobile games and digital media content

At the early stage of our mobile game development business in 2015, we developed and/or operated over 700 mobile games with an aim to capture a large pool of potential paying players and to test the popularity of different types of mobile games. It was

commercially justified for us to cooperate with China Mobile Internet and its affiliates for providing settlement services for our mobile game development and operation business, since (i) its affiliates had the largest mobile phone user base in China in 2015 with 806.6 million users, whom we could target to distribute our mobile games and that it was in line with our then business strategy to capture a large pool of potential paying players as well as to identify the popular mobile games; and (ii) it had been our settlement agent for our digital media content distribution business since 2011. As such, China Mobile Internet and its affiliates acted as our major settlement agent and distribution channel provider for our mobile games and digital media during FY2016, FY2017, FY2018. According to Frost & Sullivan, it is not uncommon for digital entertainment content providers to partner with a single platform that has a large user base together with the capabilities to process payments for in-game purchases (including, but not limited to, China Mobile Internet and its affiliates) prior to the establishment of third-party paying platforms such as two of the Leading Mobile Payment Platforms. During the Track Record Period, 99.4%, 99.8%, 98.6% and 71.4% of our Group's revenue, respectively, was collected through China Mobile Internet and its affiliates, it would be commercially justifiable to continue our business relationship with China Mobile Internet and its affiliates when we commenced our mobile game development and operation.

With enriched experience in the mobile games development and operation accumulated over the years of operation, we adopted a strategic approach in allocating our resources more efficiently by focussing on popular and profitable mobile games, and development of boutique mobile games. We optimize on our monetization measures to (i) increase the conversion rate of non-paying players into paying players, (ii) identify the popular mobile games amongst our portfolio of mobile games and create a portfolio of profitable of mobile games; and (iii) commence the development of our boutique mobile games with the view to further increasing the conversion rate and players' stickiness. To achieve effective monetization, we collect, depending on the date available from our settlement agent, and analyze in-game data such as players' gameplay pattern e.g. their spending patterns on different types of virtual items in mobile games. Aside from provision of settlement services, China Mobile Internet and its affiliates are also able to provide such in-game data in relation to players' gameplay and consumption activities for some of the mobile games.

For our digital media content distribution business, our offering of e-magazines target readers who intend to have leisure reading on diverse topics instead of highly engaging literature or fiction. In this way, we are able to appeal to a massive pool of readers with diverse interests. The publishing platform for our media content distribution is linked to the mobile phone network users of the largest communication operator in the PRC, an affiliate of China Mobile Internet, which offered us an avenue to reach a massive pool of potential readers.

Our Group has cooperated with other settlement agents during the Track Record Period and is able to secure other settlement agents on similar terms

Our Directors believe that our Group will be able to effectively mitigate its exposure to any material adverse changes which may be brought about by the possible termination of the

relationship with China Mobile Internet and/or its affiliates because our Group has cooperated with other settlement agents during the Track Record Period for our mobile game development and operation business. They include (i) settlement agents of app stores of the two other telecommunication operators in the PRC; (ii) settlement agents of mobile phone manufacturer-specific app stores; (iii) settlement agents of third party app stores; and (iv) third-party payment platforms including two of the Leading Mobile Payment Platforms. As a result, we have gradually decreased our reliance on China Mobile Internet and/or its affiliates (as our settlement agents) over the Track Record Period, and our revenue collected through China Mobile Internet and/or affiliates (as our settlement agents) decreased from approximately 100.0% in FY2016 to 71.4% in 9M2019.

The salient terms of the agreements with these other settlement agents except for two of the Leading Mobile Payment Platforms were similar to that of the agreement with China Mobile Internet and/or its affiliates in that (i) the settlement agent or its designated party shall be responsible for settlement and payment services in respect of mobile games published on the various app stores; (ii) the settlement agent or its designated party shall process and provide its settlement and payment services and provide necessary maintenance and upgrade of the system while we shall ensure that we have the necessary licence and permits for carrying out our business and maintaining the quality of our mobile games; (iii) a range of 30% to 50% of the settlement amount received would be retained by the settlement agent or its designated party and the remaining would be transferred to our Group; and (iv) the agreements typically have a term in a range of one to four months, with no specific provision on renewal.

During the Track Record Period, China Mobile Internet and/or its affiliates retained 30% of the gross billings paid by the end users; two other telecom operators in the PRC retained 30% of the gross billings paid by the end users; all settlement agents of mobile phone manufacturer-specific app stores retained 30% of the gross billings paid by the end users; and settlement agents of third party app stores generally retained 30% to 50% of the gross billings paid by the end users.

We have also entered into respective contracts with third-party payment platforms including two of the Leading Mobile Payment Platforms on their standard terms and conditions. These agreements generally have a term of one year subject to auto-renewal upon expiration unless either party provides prior written notice not to renew. These third-party payment platforms charge us payment handling fees at flat rates (which are generally not subject to negotiation) at 1% of the total amounts paid by our players through these payment platforms. We do not make any refunds to players for payments made through these payment platforms. Under the agreements with our third-party payment platforms, the third-party payment platforms are generally responsible for the operation and management of their payment systems to ensure the payment service is properly and timely delivered. We are generally obliged to use reasonable care to maintain the integrity and safety of the payment systems of such payment platforms, such as ensuring the user account safety and our network and website security, and cooperating with the payment platforms with respect to their fraud detection and other risk management arrangements. For details of our diversification strategy,

BUSINESS

please refer to “Business — Business Strategies — Diversify the use of payment and settlement services provider so as to optimize the payment functions of our games in order to stimulate further spending of the players”.

Our Directors believe our Company will not have impediments to secure cooperation with new settlement agents given (i) our stable business relationships with a large number of distribution channel providers in the PRC; and (ii) our Group’s track record in the mobile game development and operation business will provide assurance to new settlement agents in terms of attracting mobile game players. Given the amicable relationship maintained with our other settlement agents during the Track Record Period and to diversify the risks of our reliance on China Mobile Internet, our Group will continue to use other settlement agents for our mobile game development and operation business going forward.

In spite of the previous four incidents of termination of settlement agreements by China Mobile Internet and/or its affiliates with our Consolidated Affiliated Entities during the Track Record Period, our Group is not precluded by China Mobile Internet and/or its affiliates from operating the affected games through our other Consolidated Affiliated Entities under different settlement agreements, which allows us to maintain a relationship with China Mobile Internet and/or its affiliates. During the Track Record Period and up to the Latest Practicable Date, the number of times we have been penalized by China Mobile Internet and/or its affiliates has substantially decreased, which our Directors believe that, it reflected the effectiveness of the rectification measures that we have adopted and our efforts to abide its rules to China Mobile Internet and/or its affiliates. Given (i) the significant reduction in the occurrence of penalty; (ii) our business is dependent on our monetization measures and ability to identify the types of mobile games and digital media content; (iii) we have demonstrated our mutual and complementary relationship with China Mobile Internet and/or its affiliates; and (iv) our Group has cooperated with other settlement agents during the Track Record Period, our Directors believe there is a low likelihood of change in the settlement agent arrangement with China Mobile Internet and/or its affiliates which will materially adversely affect our Company.

OUR CUSTOMERS

In our mobile game operation and digital content distribution business line, we consider players who have purchased virtual items of our mobile games and the subscribers of our digital media content to be our customers. Based on the nature and operation model of our mobile games and digital media content, we do not rely on any single customer during the Track Record Period. As such, during the Track Record Period, our Directors consider that it is not practicable to identify the five largest customers of our Group. Our Directors confirmed that our Group had no material dispute with our customers during the Track Record Period and up to the Latest Practicable Date. Our Directors confirmed that none of our Directors, their associates or Shareholders who owned more than 5.0% of the share capital of our Company as at the Latest Practicable Date had any interest in the three corporate customers during the Track Record Period.

Sales and marketing

We implement various marketing and promotional measures to market and promote our mobile games. We typically promote our games to game players through app stores and our distribution channel providers. Due to the different rules and requirement of different app stores that feature our mobile games, we design different marketing activities tailored for each game. We engage the distribution channel providers which are experienced and established companies which specialize in the distribution of mobile games, with extensive network of third-party apps in an Android operating system and various other ways including pop-up advertisements and sponsored links on mobile apps. Through these distribution channel providers, we are able to extend the outreach of our games by making them available on various third-party apps in an Android operating system through pop-up advertisements and sponsored links, enabling us to capture a mass of potential players covering the diverse age groups and backgrounds.

We have been provided marketing campaigns by our distribution channel providers, at no cost to us, that single out our games to site visitors. The massive traffic of the distribution channels on which our games are available allows us to ramp up our games quickly to attract a critical mass of end-users within a shorter period of time. Our distribution channel providers are familiar with mobile games markets and possess strong marketing capabilities to help us deepen market penetration in the provinces and regions they serve. Please see the paragraph headed “Our distribution channel providers” of this section for details.

OUR TECHNOLOGY INFRASTRUCTURE

Our network infrastructure is administered by our operation teams, who are responsible for the hardware, system and network operations and maintenance. Our systems are designed for scalability and reliability to support growth in our user base. We believe that our current network facilities and broadband capacity provide us with sufficient capacity to carry out our current operations.

We have developed an extensive technology infrastructure to support our game development and operations, including a nationwide server network. Our server network consists of six leased physical servers located in Guangzhou city and 13 cloud servers. We constantly monitor our network infrastructure in order to ensure its stability and security.

While we believe that our network infrastructure and maintenance is sufficient to prevent network interruption resulting from attacks by hackers, there remains a possibility that such attacks could result in delays or interruptions on our network. For details, see “Risk Factors — We may encounter external interruptions such as system disruption or hacking or service suspension on any of the distribution platforms or the publishing platform. Any interruption to our sales of virtual items or subscription to our digital media content may materially and adversely affect our operation and reputation.”

INTELLECTUAL PROPERTIES

We implement measures to protect our intellectual properties. Further, we have established internal rules for overall source code protection and confidentiality management which specifies the relevant powers and responsibilities of employees, distribution channel providers and other third parties to produce and use confidential information.

As of the Latest Practicable Date, we have the following intellectual property rights:

- 34 registered domain names;
- 402 PRC-registered software copyrights (comprising 392 self-owned software copyrights and 10 jointly owned software copyrights);
- 27 registered trademarks in the PRC; and
- we have obtained five trademarks in Hong Kong, respectively.

As at the Latest Practicable Date, there were two subsisting licence agreements entered between us and an IP owner in respect of entertainment properties and 33 subsisting licence agreements in respect of the licensed games.

For further details in relation to our intellectual property and proprietary rights, please see the section headed “Statutory and General Information” in Appendix IV to this prospectus.

We will seek to take appropriate measures to protect our intellectual property rights if any infringement of such rights is found.

During the Track Record Period and up to the Latest Practicable Date, we were not aware of any material infringement of our intellectual property rights and any pending or threatened claims against us in relation to the infringement of any intellectual property rights of Independent Third Parties arising from our games and digital media. Our PRC Legal Advisers confirmed that our Group had not been subject to any material dispute, claims for infringement upon third-party trademarks licences and other entertainment properties in the PRC.

COMPETITION

Competition in the China mobile games market has become fiercer in recent years. Despite the industry had a late start compared to the global mobile games market, the opportunities from the mobile games market in China had encouraged more market entrants to develop mobile games domestically. The market for mobile games is relatively fragmented with more than 10,000 mobile games developers in China as at the end of 2018, and there are increasing number of new entrants to the gaming market. We compete primarily on the basis

of the quality or features of our games, the ability to choose, utilize and monetize suitable entertainment properties, our established relationship with distribution channel providers, our operational infrastructure, expertise and experience, the strength of our product management approach, and the services we offer that enhance our end-users' experience.

We compete primarily with other game developers in the PRC. We also compete with other fellow competitors in terms of monetization abilities which turn the games traffic into premium products, choosing the trendy characters and localized themes, enhancing the research and development ability, in particular in games behavior and preference and the abilities to operate the business at different levels in the value chain. We believe our successful game track record and recognition among the major distribution channel providers and ability to operate the games and monetization abilities enable us to develop and operate popular mobile offline games. In addition, we also compete for end-users against various offline games, such as arcade games and handheld games, as well as various other forms of traditional or online entertainment.

Competition may also come from international game developers. We believe that domestic game developers are likely to have a competitive advantage over international competitors entering the PRC market, as those companies are likely to lack operational infrastructure in the PRC and content localization experience for the PRC market. We cannot assure you, however, that this competitive advantage will continue to exist, particularly if international competitors establish joint ventures, form alliances with or acquire domestic game developers and distribution channel providers.

For our digital media content distribution business, the e-magazine market is fragmented with more than 1,500 participants in the industry. We mainly compete with other industry players in terms of base of readers, the range and genre of titles offered and the accessibility of the relevant content. We believe that our access to the huge customer base through our cooperation with the publishing platform operated by the largest telecommunication service operator and the reputation of our media content which we have procured licensing rights provided our Group with the potential to grow our business.

BUSINESS

AWARDS AND RECOGNITIONS

During the Track Record Period, we have received various awards and recognition in respect of our products, as well as contribution to the local economy, among which include the following:

Award/Recognition	Award Date	Awarding Institution/Authority	Entity/Product
Economic Contribution to Baiyun District Award* (白雲區經濟貢獻先進獎)	July 2016	Baiyun District Commission* (白雲區委)	Family Doctor
Model Informatized and Innovative Enterprise* (重點信息化創新企業)	March 2017	Scientific Technology, Industrial Commerce and Informatization Bureau of Baiyun District of Guangzhou City* (廣州市白雲區科技工業商務和信息化局)	Family Doctor

LICENCE AND PERMITS

The following table sets forth the details of our Group's material licenses and permits:

License/Permit	Issuing authority	Holder	Expiry date
High and New Tech Enterprise Certificate (高新技術企業證書)	Guangdong Science and Technology Department (廣東省科學技術廳), Department of Finance of Guangdong Province (廣東省財政廳) and Guangdong Provincial Tax Service, State Taxation Administration (Guangdong Provincial Office, SAT and Guangdong Local Taxation Bureau were subsequently unified as Guangdong Provincial Tax Service, State Taxation Administration) (國家稅務總局廣東省稅務局(系廣東省國家稅務局、廣東省地方稅務局合併))	廣州市家庭通信科技有限公司 (Guangzhou Family Communications Technology Company Limited*) Family Doctor	10 December 2020 27 November 2021

BUSINESS

License/Permit	Issuing authority	Holder	Expiry date
OCO Licence	Guangdong Provincial Department of Culture and Tourism (formerly Guangdong Provincial Department of Culture) (廣東省文化和旅遊廳(前稱為廣東省文化廳)) and Beijing Municipal Bureau of Culture (北京市文化局)	Guangzhou Jiu Zun	23 January 2022
		Family Doctor	9 April 2022
		廣州市家庭通信科技有限公司 (Guangzhou Family Communications Technology Company Limited*)	28 February 2022
		廣州市家庭電子科技有限公司 (Guangzhou Family Electronic Technology Company Limited*)	14 May 2022
		廣州市金奕電子科技有限公司 (Guangzhou Jinyi Electronic Technology Company Limited*)	17 August 2021
		廣州市指樂信息技術有限公司 (Guangzhou Zhile Information Technology Company Limited*)	11 July 2020
		廣州市掌寶信息技術有限公司 (Guangzhou Zhangbao Information Technology Company Limited*)	16 July 2021
		廣州豪斯信息科技有限公司 (Guangzhou Haosi Information Technology Company Limited*)	16 November 2021
		廣州靈蛇信息技術有限公司 (Guangzhou Lingshe Information Technology Company Limited*)	20 November 2019 (Note 1)
		廣州龍行信息技術有限公司 (Guangzhou Longhang Information Technology Company Limited*)	17 July 2020
		廣州裕能通信科技有限公司 (Guangzhou Yuneng Communications Technology Company Limited*)	22 June 2019 (Note 1)

BUSINESS

License/Permit	Issuing authority	Holder	Expiry date
		廣州輕彩網絡科技有限公司 (Guangzhou Qingcai Network Technology Company Limited*)	30 March 2022
		廣州隆燦網絡科技有限公司 (Guangzhou Longcan Network Technology Company Limited*)	30 March 2022
		廣州帆銘通信科技有限公司 (Guangzhou Fanming Communications Technology Company Limited*)	17 July 2019 (<i>Note 1</i>)
		廣州凡齊通信科技有限公 司(Guangzhou Fanqi Communications Technology Company Limited*)	16 March 2022
		廣州言明通信科技有限公司 (Guangzhou Yanming Communications Technology Company Limited*)	17 July 2020
		廣州清昌信息科技有限公 司(Guangzhou Qingchang Information Technology Company Limited*)	17 July 2020
		廣州瑪諾信息科技有限公司 (Guangzhou Mayu Information Technology Company Limited*)	12 July 2020
		廣州虹歡網絡科技有限公司 (Guangzhou Honghuan Network Technology Company Limited*)	11 July 2020
		廣州年喜網絡科技有限公司 (Guangzhou Nianxi Network Technology Company Limited*)	29 April 2022
		廣州愛勤網絡科技有限公 司(Guangzhou Aiqin Network Technology Company Limited*)	15 March 2022

BUSINESS

License/Permit	Issuing authority	Holder	Expiry date
Value-added Telecom (SP Licence)	Ministry of Industry and Information Technology of the People's Republic of China (中華人民共和國工業和信息化 部)	廣州凱瑞通訊科技有限公司 (Guangzhou Kairui Communications Technology Company Limited*)	17 July 2019 (<i>Note 1</i>)
		廣州竹群網絡科技有限公司 (Guangzhou Zhuqun Network Technology Company Limited*)	23 October 2020
		廣州燦東通信科技有限公司 (Guangzhou Candong Communications Technology Company Limited*)	9 October 2020
		廣州市風襲遊戲軟件科技有限公司 (Guangzhou Fengxi Game Software Technology Company Limited*)	17 July 2020
		北京風雲萬象科技有限公司 (Beijing Fengyun Wanxiang Technology Company Limited)	4 June 2021
		北京新連信息技術有限公司 (Beijing Xinlian Information Technology Company Limited*)	23 May 2021
		Family Doctor	23 March 2022
		廣州市家庭電子科技有限公司 (Guangzhou Family Electronic Technology Company Limited*)	12 July 2023
		廣州市指樂信息技術有限公司 (Guangzhou Zhile Information Technology Company Limited*)	25 October 2023

BUSINESS

License/Permit	Issuing authority	Holder	Expiry date
ICP licence	Beijing Communications Administration (北京市通信管理局)	北京風雲萬象科技有限公司 (Beijing Fengyun Wanxiang Technology Company Limited*)	25 August 2020
	Beijing Communications Administration (北京市通信管理局)	北京新連信息技術有限公司(Beijing Xinlian Information Technology Company Limited*)	25 August 2020

Notes:

- (1) As of the Latest Practicable Date, our Group was not able to renew the relevant OCO licences as a result of the Administrative Change. For details please see “Regulatory Overview — Regulations related to mobile games and internet cultural products (including digital media content)”. As confirmed by our PRC Legal Advisers, based on an enquiry made on 15 July 2019 with the Guangdong Provincial Department of Culture and Tourism (“GDDCT”), which is the relevant competent governmental authority, GDDCT is no longer responsible for supervising mobile games and would not issue or renew OCO Licences for companies engaged in mobile game business as a result of the Notice of Adjusting Examination Scope. Such non-renewed of OCO Licences does not constitute any non-compliance. Our Group, in particular, 廣州裕能通信科技有限公司 (Guangzhou Yuneng Communications Technology Company Limited*), 廣州帆銘通信科技有限公司 (Guangzhou Fanming Communications Technology Company Limited*), 廣州凱端通訊科技有限公司 (Guangzhou Kairui Communications Technology Company Limited*) and 廣州靈蛇信息技術有限公司 (Guangzhou Lingshe Information Technology Company Limited*) (collectively, the “**Expired OCO Licences Subsidiaries**”) are required to obtain OCO Licences in order for them to engage in the operations of mobile games, including single-player mobile games and multi-player mobile games. Accordingly, our PRC Legal Advisers are of the view that the non-renewals of the expired OCO Licences by the Expired OCO Licences Subsidiaries is not because our Group had engaged in the operations of the multi-player game launched in January 2019, but it is because the GDDCT would not issue or renew OCO Licences for companies engaged in mobile game business. Notwithstanding this, as advised by our PRC Legal Advisers pursuant to the said consultation with GDDCT, (i) our Group can lawfully continue our business operations in view of the aforesaid regulatory uncertainty as at the Latest Practicable Date; and (ii) the inability to renew the relevant OCO licenses as a result of the Administrative Change do not constitute any non-compliance of our Group. Our Group confirms that as soon as such laws, regulations or official guidelines have been promulgated, our Group will apply for relevant licences accordingly. Based on (i) the legal opinion of the PRC Legal Advisers of the Company as mentioned above; (ii) the consultation with GDDCT (being the relevant competent government authority) by the PRC Legal Advisers of the Company; and (iii) the concurrence of Beijing Dentons Law Offices, LLP (Shenzhen), the PRC Legal Advisers of the Sole Sponsor, with the view of the PRC Legal Advisers of the Company as mentioned above, the Sole Sponsor concurs with the view of the PRC Legal Advisers of the Company. Please see the section headed “Business — Licence and permits” for further details.

Our PRC Legal Advisers have advised us that, during the Track Record Period and up to the Latest Practicable Date, our business of development and operation of as well as information services relating to mobile games and our digital media content distribution, did not contravene any applicable PRC rules and regulations in any material aspects. Our PRC Legal Advisers have further advised us that we have obtained all requisite licenses, approvals and permits from the relevant government authorities which are material for such business operations in the PRC and such licenses, approvals and permits remain in full effect, and no circumstances existed that would render their revocation or cancellation.

BUSINESS

EMPLOYEES

As of 30 September 2019, we had 67 employees, the majority of whom are based in Guangzhou. The following table sets forth the number of our employees by function as of 30 September 2019:

	Number of employee	% of total
Research and development	17	25.3
Operations	26	38.8
Sales and marketing	4	6.0
Finance	10	14.9
Management	5	7.5
HR and Administration	5	7.5
Total	67	100.0

We provide customized and continuous on-the-job training to our new employees by experienced mentors from relevant teams or departments .

As required by PRC regulations, we participate in various employee benefit plans that are organized by municipal and provincial governments, including housing, pension, medical and unemployment 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 incurred staff costs of RMB9.2 million, RMB11.6 million, RMB10.2 million and RMB6.3 million for the FY2016, FY2017, FY2018 and 9M2019, respectively, representing 6.6%, 6.8%, 7.1% and 3.7%, of our total revenue for those periods. The total amount of contributions we made for employee benefit plans for the FY2016, FY2017, FY2018 and 9M2019, respectively, were RMB548,844, RMB498,187, RMB798,587 and RMB331,021, respectively.

Save as disclosed in the paragraph headed “Legal Proceedings and Compliance — Non-compliance matters” in this section, we maintain social insurance for our employees in the PRC in accordance with the applicable laws of the PRC and requirements from the competent local authorities, of which the insurance premium is borne by us and the employees in a specific proportion regulated by the relevant PRC laws.

PROPERTIES

As of the Latest Practicable Date, we leased a property in Guangzhou, the PRC which was principally used as our office premises for our business operations.

Our office has an aggregate gross floor area of 522.61 square meters in Guangzhou and the lease will be expiring on 31 March 2020 and our Directors intend to renew the lease after the expiration.

BUSINESS

TAX

PRC enterprise income tax has been generally provided at the applicable enterprise income tax rate of 25% on the estimated assessable profits of the companies in our Group during the Track Record Period, except for (i) certain of our Consolidated Affiliated Entities which qualified as PRC High and New Technology Enterprise in Mainland China where a lower PRC corporate income tax rate of 15% had been applied during the Track Record Periods and (ii) certain of our Consolidated Affiliated Entities which applied the Small-Scaled Minimal Profit Enterprise Income Tax Preferential Policy announced by the State Administration of Taxation, who can enjoy 50% taxable income deduction and preferential rate of 20% was applied for the calculation of corporate income tax.

INSURANCE

Consistent with the industry practice in the PRC, we do not maintain business interruption insurance or insurance covering potential liabilities. As of the Latest Practicable Date, we had not made nor been the subject of any material insurance claims.

Any uninsured occurrence of business disruption, litigation or natural disaster, or significant damages to our uninsured equipment or facilities could have a material adverse effect on our results of operations. Please see the section headed “Risk Factors — Risks Relating to our Business — We have not purchased any insurance for claims arising from our business, and we have not purchased any insurance to cover our main assets, properties, and business, and our limited insurance coverage could expose us to significant costs and business disruption” of this prospectus.

LEGAL PROCEEDINGS AND COMPLIANCE

Legal proceedings

During the Track Record Period and up to the Latest Practicable Date, we had not been and were not a party to any material legal, arbitral or administrative proceedings, and we were not aware of any pending or threatened legal, arbitral or administrative proceedings against us or any of our Directors which could have a material adverse effect on our operations or financial condition.

Non-compliance matters

Set out below is a summary of certain incidents of our non-compliance with applicable PRC laws and regulations during the Track Record Period and up to the Latest Practicable Date.

Having considered the advice of our PRC Legal Advisers, the facts and circumstances leading to the non-compliance incidents as disclosed in this section and our Group’s enhanced internal control measures, our Directors are of the view, and the Sole Sponsor concurs, that (i)

we have adequate and effective internal control procedures in place in accordance with the requirements under the Listing Rules; (ii) the non-compliance incidents will not affect the suitability of the Directors to act as directors of a listed issuer under Rules 3.08, 3.09 and 8.15 of the Listing Rules and the suitability for the listing of our company under Rule 8.04 of the Listing Rules; (iii) the non-compliance incidents have not caused and will not have a material adverse effect on our business, results of operation and financial condition; and (iv) the non-compliance incidents have not negatively reflected on the ability and integrity of our Directors and/or our senior management and/or our Company to conduct our business in a compliance manner.

Save as disclosed below, we have been in compliance with the applicable PRC laws and regulations relating to our business operations during the Track Record Period and up to the Latest Practicable Date in all material respects.

Failure to obtain the approvals from the SAPPRFT and to complete the filing recording process with the Ministry of Culture

Background

Under the relevant PRC laws and regulations, (i) the commercial launch of mobile games in the PRC is subject to pre-approvals by the SAPPRFT, and (ii) the commercial launch of mobile games in the PRC is also subject to filing obligation with the Ministry of Culture.

During the Track Record Period, our Company has not strictly observed (i) the pre-approval requirement from the SAPPRFT for the commercial launch of certain of our mobile games, and/or (ii) the filing requirement of the Ministry of Culture for the commercial launch of certain of our mobile games (collectively, the “**Administrative Procedures**”).

Pursuant to the consultation with Administration of Press and Publication of Guangdong (廣東省新聞出版局) (formerly known as Administration of Press, Publication Film and Television of Guangdong (廣東省新聞出版廣電局)) (“**Guangdong APP**”) by our PRC Legal Advisers, the SAPPRFT granted a grace period up to 31 December 2016 for mobile game publishing service entities to apply for the pre-approvals, hence no income generated by our mobile games in the PRC would be deemed as non-compliant income prior to the end of such grace period. During FY2017 and FY2018, we had 50 mobile games and 11 mobile games (“**Non-compliance Games**”), respectively, which failed to comply with such administrative procedures prior to the publication of such mobile games, during which periods we had a total of 222 mobile games and 131 mobile games, respectively. The aggregate revenue derived from Non-compliance Games was approximately RMB5.1 million and RMB1.7 million, for FY2017 and FY2018, respectively.

Our accounting system is not designed to trace the costs allocated and profits attributable to the Non-compliance Games, hence we are unable to ascertain the precise gross profit or income derived from such Non-compliance Games. In the unlikely event that the income derived from such Non-compliance Games were to be excluded and the entire amount

be deducted directly from our profit hypothetically, we would still be able to satisfy the minimum listing requirement under the profit test pursuant to Rule 8.05 (1) of the Listing Rules on the basis that our adjusted net profit attributable to the owners of our Company for FY2016, FY2017, FY2018 and 9M2019 would be RMB36.5 million, RMB41.5 million, RMB46.0 million and RMB27.7 million after deducting the total revenue amount contributed by the Non-compliance Games from the net profit for the corresponding period.

Reasons for non-compliance

Our HR and administrative department, which was primarily in charge of handling the Administrative Procedures, from time to time applied for the pre-approvals by SAPPRFT and completed the filing recording process with Ministry of Culture pursuant to the request by the distribution channel providers or settlement agents. However, our HR and administrative department lacked sufficient knowledge on the relevant laws and regulations, which led to our failure to apprehend the importance of the requirements and the consequences of non-compliance. As a result, we did not comply with the Administrative Procedures with some of our mobile games.

Legal consequences including potential maximum penalty and other financial liabilities

Under the GAPP Notice (effective as of 28 September 2009), if we fail to obtain SAPPRFT's pre-approval before our mobile games' commencement of publication, the competent authority may order us to cease operation of such games. The GAPP Notice, however, does not provide for monetary penalties for failure to obtain such prior approval.

Pursuant to the Administrative Measures for Internet Publishing Services (《網絡出版服務管理規定》) (the “**Internet Publishing Measures**”) (effective as of 10 March 2016), failure to obtain SAPPRFT's pre-approval before our mobile games' commencement of publication may cause us to discontinue operating relevant games and subject us to a confiscation of all illegal income and major equipment and specialized tools used in illegal publishing activities. For illegal income of more than RMB10,000, a fine ranging from five times to ten times the illegal income shall be imposed; for business revenue of less than RMB10,000, a fine of RMB50,000 or less may be imposed; where the competent judicial authorities find that the non-compliance circumstances are extremely serious, the aforesaid authorities have the power to impose criminal liability to companies that are in breach. SAPPRFT subsequently further granted a grace period up to 31 December 2016 for game publishing service entities to apply for the pre-approvals given the considerable amount of online games that fail to obtain the pre-approvals before launching in the industry as a whole.

Our PRC Legal Advisers have consulted Guangdong APP, which confirmed that the relevant competent authorities do not deem the publication of mobile games without first obtaining SAPPRFT's pre-approvals prior to the end of the aforementioned grace period as an illegal conduct. As advised by our PRC Legal Advisers, the aforementioned government authorities have the authority and are competent to make the aforesaid confirmations.

On 17 February 2011, the MOC promulgated the Interim Administrative Provisions on Internet Culture (《互聯網文化管理暫行規定》(the “**Internet Culture Provisions**”), which was further amended on 15 December 2017. Under the Internet Culture Provisions, where an operational internet cultural entity fails to file with the cultural administrative department for archival purposes within a time limit when operating domestic internet cultural products, it may subject us to a fine up to RMB20,000 (unlike SAPPRFT, Ministry of Culture did not grant a grace period for the post-filing requirement).

Remedial action

As at the Latest Practicable Date, our Group has ceased to operate all Non-compliance Games and all games operated by our Group have complied with the Administrative Procedures.

According to the consultation with Guangdong APP by our PRC Legal Advisers, Guangdong APP confirmed that (i) they do not deem our publication of mobile games without first obtaining SAPPRFT’s pre-approval prior to the end of the grace period (i.e. 31 December 2016) as a non-compliant conduct; and (ii) mobile games that have ceased in operation are not required to obtain further pre-approval from SAPPRFT and no legal proceedings will be initiated against mobile game operators who have voluntarily ceased operation of mobile games with such non-compliance.

We have obtained confirmations from the Guangdong Provincial Department of Culture and Tourism (廣東省文化和旅遊廳) (formerly known as Guangdong Provincial Department of Culture (廣東省文化廳)) confirming that we had not been penalized for violating the Internet Culture Provisions.

As advised by our PRC Legal Advisers, the Guangdong Provincial Department of Culture and Tourism is the local counterpart of the Ministry of Culture in Guangdong Province, and Guangdong APP is the local counterpart of the SAPPRFT in Guangdong Province. Therefore, the aforementioned government authorities have the authority and are competent to make the aforesaid confirmations.

Pursuant to the Deed of Indemnity, our Controlling Shareholders have jointly and severally undertaken to indemnify us if we were penalized by any competent departments or suffer any loss as the consequence of our failure to comply with the Administrative Procedures.

To the best knowledge of our Directors, we are not under any administrative or criminal investigation or other legal proceeding in relation to this issue.

Given that (i) we have obtained confirmations from the competent government authorities as part of our remedial actions; (ii) our Company has voluntarily ceased operation of all Non-compliance Games; and (iii) we are not under any administrative or criminal investigation or other legal proceeding regarding our Non-compliance Games, our PRC Legal

Advisers have advised us that (a) the risk for SAPPRFT or Ministry of Culture to impose any retrospective penalty over our previous failure to complete the Administrative Procedures prior to the publication of our mobile games is remote; (b) such previous failure is unlikely to be considered as a serious violation of either the GAPP Notice and the Internet Publishing Measures, with respect to the SAPPRFT's pre-approval requirement, or the Game Measures, with respect to the Ministry of Culture's post-filing requirement, and therefore the risk that we will be subject to any form of penalty resulting from such failure is remote; and (c) neither our business operation nor our relevant licences had been suspended in the past, and in any event the maximum penalty and legal consequence for our past breach of post-filing requirements of the Ministry of Culture is immaterial. Our PRC Legal Advisers are of the view that the risk for the competent authorities of internet cultural operation or publishing to impose penalties on us is remote.

For further details of the internal control measures adopted as part of the remedial measures, please see the paragraph headed "Internal Control Measures to Ensure Future Compliance" of this section.

Our Directors are of the view, and the Sole Sponsor concurs, that (i) the potential impact of its past failure to complete the administrative procedures prior to the publication of its mobile games to the Company's operations and financial condition is low; and (ii) and the non-compliance with respect to the failure to observe the HR and administrative procedures does not impugn on the suitability for listing of our Company under Rule 8.04 of the Listing Rules or the suitability of our Directors under Rules 3.08 and 3.09 of the Listing Rules since (a) such non-compliance was due to the lack of sufficient knowledge on the relevant laws and regulations and misperception of our HR and administrative department, and does not involve fraudulent or dishonest behavior from the Directors, (b) based on the PRC Legal Advisers' opinion that the risk for the relevant competent authorities to impose penalties on us is remote, the Company and our Directors are of the view that the potential impact of such non-compliance on our operations and financial condition is low, and (c) the Company has taken the aforementioned remedial actions and has established specific internal control procedures to prevent the re-occurrence of such non-compliance.

Failure to make social insurance and housing provident fund contributions in full

Background

During the Track Record Period, we had not fully paid our contributions to the social insurance and housing provident fund for all of our employees.

Reasons for non-compliance

During the Track Record Period, we had not fully paid our contributions to the social insurance and housing provident fund for all of our employees because:

- some of our employees did not want to participate in the social insurance and housing provident fund schemes as they do not want to bear their portion of contributions; and

- our HR and administration department was not familiar with the relevant laws and regulations in respect of social insurance and housing provident fund contributions for our employees.

Legal consequences including potential maximum penalty and other financial liabilities

According to Social Insurance Law of the People's Republic of China (中華人民共和國社會保險法), where an employer fails to pay social insurance premiums in full or on time, the regulator shall order it to pay or make up the balance within a prescribed time limit, and impose daily late charge of 0.05%. If an employer still fails to pay within the time limit prescribed, the regulator may impose a fine of 1-3 times of the overdue amount.

According to the Regulations concerning the Administration of Housing Provident Fund (住房公積金管理條例), in the event that an employer fails to pay its housing provident fund contributions, the regulator may order it to rectify the non-compliance incidents within the prescribed time limit, failing which the regulator may apply to the People's Court for compulsory enforcement.

Remedial action

We have been in compliance with the relevant laws and regulations in relation to social insurance and housing provident fund contributions since September 2017.

We have obtained the confirmations from Guangzhou Municipal Human Resources and Social Security Bureau (廣州市人力資源和社會保障局), Guangzhou Housing Provident Fund Management Center (廣州市住房公積金管理中心) and Shantou Housing Provident Fund Management Center (汕頭市住房公積金管理中心) that we have not been penalized for violating laws and regulations related to social insurance and housing provident fund.

As advised by our PRC Legal Advisers, Guangzhou Municipal Human Resources and Social Security Bureau (廣州市人力資源和社會保障局), Guangzhou Housing Provident Fund Management Center (廣州市住房公積金管理中心) and Shantou Housing Provident Fund Management Center (汕頭市住房公積金管理中心) have the authority and are competent to make the aforesaid confirmations.

Provisions have subsequently been made in respect of the unpaid amounts of contributions to the social insurance and housing provident fund during the Track Record Period as follows:

- approximately RMB963,000 for the year ended 31 December 2016
- approximately RMB747,000 for the year ended 31 December 2017

BUSINESS

As at the Latest Practicable Date, (i) we had not received any request, demand or order for making up the outstanding social insurance and housing provident fund contributions or notice of imposition of fine as a result of such non-compliance from the regulator or relevant governmental authorities; (ii) we had obtained confirmations from the relevant governmental authorities confirming that none of our Group companies established in the PRC had been fined for any outstanding contributions in respect of social insurance and housing provident fund; and (iii) our PRC Legal Advisers have advised that the risk of us being required to pay administrative fine by the relevant governmental authorities for the unpaid social insurance and housing provident fund contributions is remote.

As a result, no provision has been made for the potential imposition of fine by the regulator for the failure to pay social insurance and housing provident fund contributions in full during the Track Record Period.

Our Directors believe that sufficient provisions have been made in our financial statements in respect of the unpaid social insurance and housing provident fund contributions.

Pursuant to the Deed of Indemnity, the Controlling Shareholders have jointly and severally undertaken to indemnify us in respect of any demand or order from the relevant government authorities for payment of the unpaid social insurance and housing provident fund contributions or any penalty imposed.

In the event that the regulator and/or relevant governmental authorities order us to pay the overdue social insurance contributions and/or housing provident fund contributions, we will comply with such order within the prescribed time limit. Going forward, the service contracts of all our employees will specify the requirements for all employees to cooperate with us in complying with the laws and regulations in relation to social insurance and housing provident fund contributions. To avoid recurrence of the past non-compliance incidents described herein, we have adopted certain additional internal control measures to improve our corporate governance and internal control. Please see the paragraph headed “Internal Control Measures to Ensure Future Compliance” of this section for details. Based on the fact that (i) the relevant government authorities were aware of the non-compliance incident; and (ii) we are now in full compliance with the relevant laws and regulations in relation to social insurance and housing provident fund contributions, our PRC Legal Advisers have advised that the risk of us receiving administrative penalty from the relevant governmental authorities for the unpaid social insurance and housing provident fund contributions is remote.

Given that (i) sufficient provisions have been made in our financial statements in respect of the unpaid social insurance and housing provident fund contributions; (ii) each of the Controlling Shareholders have jointly and severally undertaken to indemnify us in respect of any demand from relevant government authorities for payment of unpaid social insurance and housing provident fund contributions or any penalty imposed; and (iii) our PRC Legal Advisers have advised that the risk of us receiving administrative penalty from the relevant government authorities for the unpaid social insurance and housing provident fund

contributions is remote, our Directors are of the view, and the Sole Sponsor concurs, that the potential impact of its past failure to make social insurance and housing provident fund contributions in full to the Company's operations and financial condition is low and does not impugn on the suitability for listing of our Company under Rule 8.04 of the Listing Rules or the suitability of our Directors under Rules 3.08 and 3.09 of the Listing Rules since (a) such non-compliance was due to some of our employees' unwillingness to bear their portion of contributions and the insufficient knowledge and misperception of our HR and administrative department, and does not involve fraudulent or dishonest behavior from the Directors, (b) based on the PRC Legal Advisers' opinion that the risk for the relevant competent authorities to impose penalties on us is remote, the Company and our Directors are of the view that the potential impact of such non-compliance on our operations and financial condition is low, and (c) the Company has taken the aforementioned remedial actions and has established specific internal control procedures to prevent the re-occurrence of such non-compliance.

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.

As of 30 September 2019, our finance team consisted of 10 employees, and is headed by our chief financial officer and executive Director, Mr. Liang, who has extensive experience in public company financial reporting. Other senior members of our finance department are all experienced in finance and accounting.

Information risk management

We have adopted measures to protect user data we have accumulated and prevent technical issues in our network infrastructure and information technology system. Our information technology team consists of six employees, and is led by the senior vice president, Mr. Zhao Xinlin, the senior vice president of Family Doctor, who has approximately 10 years of experience in information technology industry oversees our network infrastructure and information technology system and is supported by members from research and development team and operations team.

We use various information management systems in our operations. To ensure information security, employee access to internal information is restricted and employees are not allowed to access certain internal information without authorization. We have adopted internal policies to ensure that authorization is tailored to employee seniority and department function so that certain information can only be obtained on an as-need basis.

We have adopted various policies on database operation to prevent information leakage and loss of data. We also use monitoring systems to monitor the data operating status of the server and alert relevant departments to abnormal situations. In addition, our daily maintenance, fire protection measures, access control system and other measures help maintain the physical condition of our network infrastructure. We also have a data back-up system through which our data is stored on servers of different locations on a weekly basis to reduce the risk of data loss. Our information technology team of the research and development department conducts backup recovery tests semi-annually to examine the status of this back-up system. To ensure the confidentiality of our Group's data, we have included the confidentiality provisions in the employment contracts with all of our employees, and only the relevant staff who need to obtain the data for conducting analysis are allowed to access the relevant data. Our Group also reviews the data access policy on a regular basis to increase the awareness of the importance of data protection.

Legal compliance and intellectual property rights risk management

Compliance with PRC laws and regulations, especially laws and regulations governing the online game industry, as well as the protection of our intellectual property rights and the prevention of liabilities resulting from potential intellectual properties infringement are major focus areas of our operational risk management.

When we develop a new product, our senior management is required to approve. The proposal materials are also subject to review by our HR and Administration department, which conducts searches to ensure that the idea and design embedded in our new product proposal would not infringe upon any third parties' existing intellectual property rights. Our HR and Administration department also ensures the timely application for trademark, copyright or patent registrations for, as well as the timely filing with relevant authorities of, our new products. We also engage external counsel or external intellectual property agent to assist us in legal compliance and the prevention and resolution of issues related to intellectual property rights.

Human resource risk management

We have established internal control policies covering various aspects of human resource management such as recruiting, training, work ethics and legal compliance.

We adopt high standards in recruitment with strict procedures to ensure the quality of new hiring. Moreover, we provide specialized training tailored to the needs of our employees in different departments. Various operation departments would raise their recruitment request

to the HR and administration department, which will decide on the appropriate channel for recruiting talents, including internal training and promotion which enables a good use of existing human resources and mentoring program where the experienced staff can guide the less experienced staff in familiarizing with our operation as well as mingling with our Group's culture.

Corporate governance measures

We established the Audit Committee on 21 February 2020, the primary duties of which are to assist our Board by providing an independent view of the effectiveness of the financial reporting process, internal control and risk management systems of our Group, overseeing the audit process and performing other duties and responsibilities as assigned by our Board. The Audit Committee consists of Mr. Zhao Junfeng, Mr. Zhuang Wensheng and Ms. Song Yi, chaired by Mr. Zhao Junfeng.

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.

INTERNAL CONTROL MEASURES TO ENSURE FUTURE COMPLIANCE

In order to ensure future compliance with applicable laws and regulations and related policies in different operational aspects, we have adopted or will adopt the following remedial actions:

- (i) our Group has implemented procedures of regular checking by different personnel to ensure that the documentations and applications have complied with the relevant legal requirements;
- (ii) we will, when required, engage external legal advisers to provide legal advice and training to the Directors and members of the senior management in respect of PRC laws and regulations applicable to our Group; and
- (iii) we will conduct regular internal control reviews to ensure that the governmental regulations and related policies in different operational aspects are fully complied with.

In order to prevent re-occurrence of non-compliance incidents in the future and further strengthen our internal control system, we have taken the following additional measures to improve our corporate governance and internal control:

BUSINESS

Matters of non-compliance	Internal control measures
(i) Failure to obtain the approvals from SAPPRFT and to complete the filing recording process with the Ministry of Culture	Our executive Directors shall be responsible for reviewing the documents and relevant requirements in relation to obtaining approvals from the authorities. Our executive Directors shall be also responsible to perform checking on a regular basis to ensure all the games are complied with relevant requirements. We have also arranged our PRC Legal Advisers to provide training to the team members in the operations department to familiarize them with the relevant requirements.
(ii) Failure to make social insurance and housing provident fund contributions in full	Our HR and administration department shall be responsible for ensuring compliance with the applicable PRC laws and regulations in relation to social insurance and housing provident fund contributions, and we have assigned our HR and administration manager to carry out procedures of review and double-check on a monthly basis to ensure the register of payment record is updated properly and that all payments of contributions to social insurance and housing provident fund for each employees are made on a timely basis. We have also arranged our PRC Legal Advisers to provide training to the staff of the HR and administration department to familiarize them with the relevant laws and regulations.

After considering the above remedial actions taken by our Group and our business nature and operation scale, our Directors are satisfied that our internal control system is adequate and effective for our current operation environment and consider that the non-compliance incidents do not have any material impact on the suitability of our Directors under Rules 3.08 and 3.09 of the Listing Rules and our suitability for listing under Rule 8.04 of the Listing Rules.

CONTRACTUAL ARRANGEMENTS

BACKGROUND

We are a digital entertainment content provider in the PRC with a diversified content portfolio comprising (i) mobile games, (ii) e-magazines, and (iii) other digital media content such as comics and music. During the Track Record Period, our business are operated principally under two business lines: (i) mobile game development and operation; and (ii) digital media content distribution. We conduct our business through our Consolidated Affiliated Entities, comprising Guangzhou Jiu Zun and its subsidiaries, which were all established under the laws of the PRC. As the operation of our businesses in the PRC are subject to foreign investment restrictions under PRC law and regulations, our Company is unable to own or hold any direct or indirect equity interest in our Consolidated Affiliated Entities. Please see the section headed “Regulatory Overview — Restrictions on Foreign Investment” of this prospectus for further details of the limitations on foreign ownership in PRC companies conducting our businesses under applicable PRC laws and regulations.

As a result of the foregoing, on 23 February 2019, we entered into a series of Contractual Arrangements with Guangzhou Jiu Zun through WFOE to conduct our businesses in the PRC in order to comply with the applicable PRC laws and regulations and to assert management control over the operations of, and enjoy all economic benefits of Guangzhou Jiu Zun. The existing agreements underlying such contractual arrangements with Guangzhou Jiu Zun include (i) the Management Services Agreement; (ii) the Irrevocable Option Agreement; (iii) the Equity Pledge Agreement; (iv) the Intellectual Property Transfer and Licence Agreement; and (v) the Voting Rights Proxy Agreements and Powers of Attorney.

FOREIGN INVESTMENT RESTRICTIONS UNDER PRC LAWS AND REGULATIONS

Foreign investment activities in the PRC are mainly governed by the Negative List (2019 Version), which was promulgated on 30 June 2019 by MOFCOM and the National Development and Reform Commission (中華人民共和國國家發展和改革委員會) and came into effect on 30 July 2019. Pursuant to the Negative List (2019 Version), the proportion of foreign investment in a value-added telecommunication business shall not exceed 50% (except for e-commerce, domestic multiparty communications, store and forward services, and call center services), and the Chinese party shall have a controlling stake in basic telecommunication business. Investment in Internet news information services, Internet publication services, Internet video and audio program services, Internet cultural business (except music), and Internet social networking services (excluding services already opening up in the China’s WTO accession commitments) shall be prohibited.

CONTRACTUAL ARRANGEMENTS

As advised by our PRC Legal Advisers, as at the Latest Practicable Date, a summary of our businesses that are subject to foreign investment restriction or prohibition in accordance with the Negative List (2019 Version) effective as of 30 July 2019 is set out below:

Categories	Requisite Licence	Business
Internet cultural business (“ Prohibited ”)	OCO Licence	(i) Mobile game development and operation; and (ii) digital media content distribution
Value-added telecommunication service business (“ Restricted ”)	SP Licence	(i) Mobile game development and operation; and (ii) digital media content distribution

Internet cultural business

According to our PRC Legal Advisers, as our mobile game development and operation business and our digital media content distribution business involves provision of internet cultural products and relevant services and therefore falls within internet cultural business, we are required to hold the OCO Licence to carry out such business. As at the Latest Practicable Date, each of our Consolidated Affiliated Entities holds the OCO Licence (save for Guangzhou Yuneng Communications Technology Company Limited, Guangzhou Fanming Communications Technology Company Limited, Guangzhou Kairui Communications Technology Company Limited and Guangzhou Lingshe Information Technology Company Limited for which the OCO Licences have expired as of the Latest Practicable Date). Please see the section headed “Business — Licence and Permits” for further details.

According to the Several Opinions on Canvassing Foreign Investment into the Culture Sector jointly issued by the Ministry of Culture, SAPPRFT, GAPP, the National Development and Reform Commission and the Ministry of Commerce (Wen Ban Fa [2005] No.19) (文化部、國家廣播電影電視總局、新聞出版署、中華人民共和國國家發展和改革委員會、商務部關於文化領域引進外資的若干意見 (文辦發[2005]19號)), foreign investors are prohibited from establishing and operating entities engaging the internet cultural business. According to the Notice regarding Implementation of the revised “Interim Administrative Provisions on internet Culture” issued by the Ministry of Culture (Wen Shi Fa [2011] No.14) (文化部關於實施新修訂《互聯網文化管理暫行規定》的通知 (文市發[2011]14號)), the relevant authorities shall not accept any application for operation of internet cultural business (except music) by any foreign invested internet content provider.

CONTRACTUAL ARRANGEMENTS

According to the consultation with the Guangdong Provincial Department of Culture (廣東省文化廳) (currently known as Guangdong Provincial Department of Culture and Tourism (廣東省文化和旅遊廳)) by our PRC Legal Advisers, we were given to understand that (i) the operation of mobile games (including technical support and customer services) and the operation of digital media (including e-magazines, mobile comics and digital music) are classified as internet cultural business, which falls under the Negative List (2019 Version); (ii) any foreign-funded enterprise (except foreign-funded enterprises held as to not more than 49% by permanent residents of Hong Kong and/or Macau) will not be allowed to apply for the OCO Licence and not be allowed to acquire any equity interest in the enterprises holding an OCO Licence; and (iii) the department will no longer issue an OCO Licence to any existing foreign invested enterprise (other than those held as to not more than 49% by permanent residents of Hong Kong and/or Macau as ultimate investors).

Given that (i) each of our Consolidated Affiliated Entities holds an OCO Licence (save for Guangzhou Yuneng Communications Technology Company Limited, Guangzhou Fanming Communications Technology Company Limited, Guangzhou Kairui Communications Technology Company Limited and Guangzhou Lingshe Information Technology Company Limited for which the OCO Licences have expired as of the Latest Practicable Date); (ii) foreign investment in enterprises holding an OCO Licence is prohibited under the PRC laws and regulations; and (iii) any foreign-funded enterprise (except foreign-funded enterprises held as to not more than 49% by permanent residents of Hong Kong and/or Macau) will not be allowed to apply for an OCO Licence, our PRC Legal Advisers are of the view that our Company, being a foreign investor, is prohibited from obtaining an OCO Licence to conduct our businesses and prohibited from acquiring any equity interest in the Consolidated Affiliated Entities. In addition, as the operation of our businesses in the PRC is subject to foreign investment restrictions in accordance with the Special Administrative Measures (Negative List) for Foreign Investment Access 2019 Version (《外商投資准入特別管理措施(負面清單) (2019年版)》), our PRC Legal Advisers are also of the view that our Company, being a foreign investor, is prohibited from holding any direct or indirect equity interest in our Consolidated Affiliated Entities.

Value-added telecommunication service business

According to our PRC Legal Advisers, as our mobile game development and operation business and our digital media content distribution business involves the use of SMS of a telecommunication operator for purchasing virtual items in our mobile games and subscription of our digital media content, respectively, by users and therefore falls within value-added telecommunication service business, our Group is required to hold the SP Licence to carry out our business.

On 11 December 2001, the State Council promulgated the Regulations for the Administration of Foreign-Invested Telecommunications Enterprises (the “**FITE Regulations**”), which were amended on 10 September 2008 and 6 February 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

CONTRACTUAL ARRANGEMENTS

content provision services. In addition, a foreign investor who invests in a value-added telecommunications business in the PRC must possess prior experience in operating value-added telecommunications businesses and a proven track record of business operations overseas (the “**Qualification Requirements**”). Foreign investors that meet these requirements must obtain approvals from MIIT and/or its authorized local counterparts which retain considerable discretion in granting such approvals. Currently none of the applicable PRC laws, regulations or rules provides clear guidance or interpretation on the Qualification Requirements. The MIIT issued a guidance memorandum on the application requirement for establishing foreign-invested value-added telecommunications enterprises in the PRC. According to this guidance memorandum, an applicant is required to provide, among other things, the applicant’s annual reports for the past three years, satisfactory proof of the Qualification Requirements and business development plan. 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. Our PRC Legal Advisers have advised us that as at the Latest Practicable Date: (i) this guidance memorandum has no legal or regulatory effect under the PRC laws; and (ii) no applicable PRC laws, regulations or rules have provided clear guidance or interpretation on the Qualification Requirements.

According to the telephone consultation conducted by our PRC Legal Advisers and the MIIT, being the ultimate authority to approve operation of internet information services in the PRC by a wholly foreign owned enterprise, we are given to understand that value-added telecommunication services is classified as restricted services and foreign investors are not allowed to hold more than 50% of the equity interests in a company providing such services. Our PRC Legal Advisers also consulted Guangdong Communications Administration (廣東省通信管理局), confirming that they do not accept any sino-foreign enterprise in application of the SP Licence and they do not grant any sino-foreign enterprise permission to operate value-added telecommunication services. Our PRC Legal Advisers have advised us that the chance for a sino-foreign enterprise to obtain the SP Licence is very low.

Upon consultation with the MIIT by our PRC legal advisers, the MIIT has not provided clear guidance on what “prior experience in operating value-added telecommunications businesses” and “proven track record of business operations overseas” in respect of the Qualification Requirement entails but has indicated that the below measures taken by the Group to meet the Qualification Requirements is appropriate and generally in line with usual practice adopted by other mobile game companies in accumulating prior experience and a proven track record period of business operations overseas in respect of the Qualification Requirements.

CONTRACTUAL ARRANGEMENTS

Despite the lack of clear guidance or interpretation on the Qualification Requirements, we have already taken measures and plan to take specific steps to meet the Qualification Requirements, such as:

- (i) applying for registration of trademarks outside of the PRC, such as in Hong Kong, in May 2019, with an aim to apply such trademarks for the promotion of certain of our mobile games in Hong Kong and overseas. We plan to register our intellectual property rights in more jurisdictions to enhance our brand recognition;
- (ii) signing a memorandum of understanding to obtain certain intellectual property rights for development of our mobile games overseas from a foreign Independent Third Party. We plan to enter into more definitive agreements with foreign mobile game developers to further explore overseas markets in 2020; and
- (iii) looking for an office in Hong Kong as we plan to set up a branch office for potential overseas operations in 2020.

Nevertheless, even if we have taken steps with the aim to meet the Qualification Requirements, each of our Consolidated Affiliated Entities holds the OCO Licence (save for Guangzhou Yuneng Communications Technology Company Limited, Guangzhou Fanming Communications Technology Company Limited, Guangzhou Kairui Communications Technology Company Limited and Guangzhou Lingshe Information Technology Company Limited for which the OCO Licences have expired as of the Latest Practicable Date), which prohibits foreign investment, and thus, we would not be able to directly or indirectly hold any equity interest in our Consolidated Affiliated Entities. In addition, as the operation of our businesses in the PRC is subject to foreign investment restrictions in accordance with the Special Administrative Measures (Negative List) for Foreign Investment Access 2019 Version (《外商投資准入特別管理措施(負面清單) (2019年版)》), we are prohibited from holding any direct or indirect equity interest in our Consolidated Affiliated Entities.

Based on the foregoing, our PRC Legal Advisers are 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 and appropriate to demonstrate compliance with the Qualification Requirements. We will, as applicable and when necessary, disclose the progress of our overseas expansion plans and any update to the Qualification Requirements in our annual and interim reports to inform Shareholders and other investors after the Listing. We will also make periodic inquiries with relevant PRC authorities to understand any new regulatory development and assess whether our level of overseas experience is sufficient to meet the Qualification Requirements.

Please see the sections headed “Regulatory Overview — Restrictions on Foreign Investment”, “Regulatory Overview — Regulations Related to Mobile Games and Internet Cultural Products (Including Digital Media Content)” of this prospectus for further details of the licensing and approval requirements applicable to our businesses under PRC laws and regulations.

CONTRACTUAL ARRANGEMENTS

Given that (i) each of our Consolidated Affiliated Entities holds an OCO Licence (save for Guangzhou Yuneng Communications Technology Company Limited, Guangzhou Fanming Communications Technology Company Limited, Guangzhou Kairui Communications Technology Company Limited and Guangzhou Lingshe Information Technology Company Limited for which the OCO Licences have expired as of the Latest Practicable Date); (ii) foreign investment in enterprises holding OCO Licences is prohibited under the PRC laws and regulations, and (iii) any foreign-funded enterprise (except foreign-funded enterprises held as to not more than 49% by permanent residents of Hong Kong and/or Macau) will not be allowed to apply for an OCO Licence, as confirmed by our PRC Legal Advisers, we determined that it is not viable for the Company to hold the Consolidated Affiliated Entities directly or indirectly through equity ownership. In addition, as the operation of our businesses in the PRC is subject to foreign investment restrictions in accordance with the Special Administrative Measures (Negative List) for Foreign Investment Access 2019 Version (《外商投資准入特別管理措施(負面清單) (2019年版)》), it is also not viable for our Company, being a foreign investor, to hold any direct or indirect equity interest in our Consolidated Affiliated Entities. Instead, in line with common practice in the mobile game development and operation industry and digital media content distribution 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 businesses currently operated by the Consolidated Affiliated Entities through a series of Contractual Arrangements between WFOE, our Company's wholly-owned subsidiary on the one hand, and Guangzhou Jiu Zun and the Relevant Shareholders on the other hand. The Contractual Arrangements allow the Consolidated Affiliated Entities' financials and results of operations to be consolidated into our financials and results of operations under HKFRSs as if they were wholly-owned subsidiaries of our Group.

In view of the foregoing, our Company do not directly own any equity interest in the Consolidated Affiliated Entities. Guangzhou Jiu Zun is owned by Mr. Liang, Yujiang Yingming Investment, Yujiang Chenghe Investment, Mr. Xu and Ms. Zhang as to 32.26%, 26.88%, 26.88%, 7.53% and 6.45% equity interest, respectively.

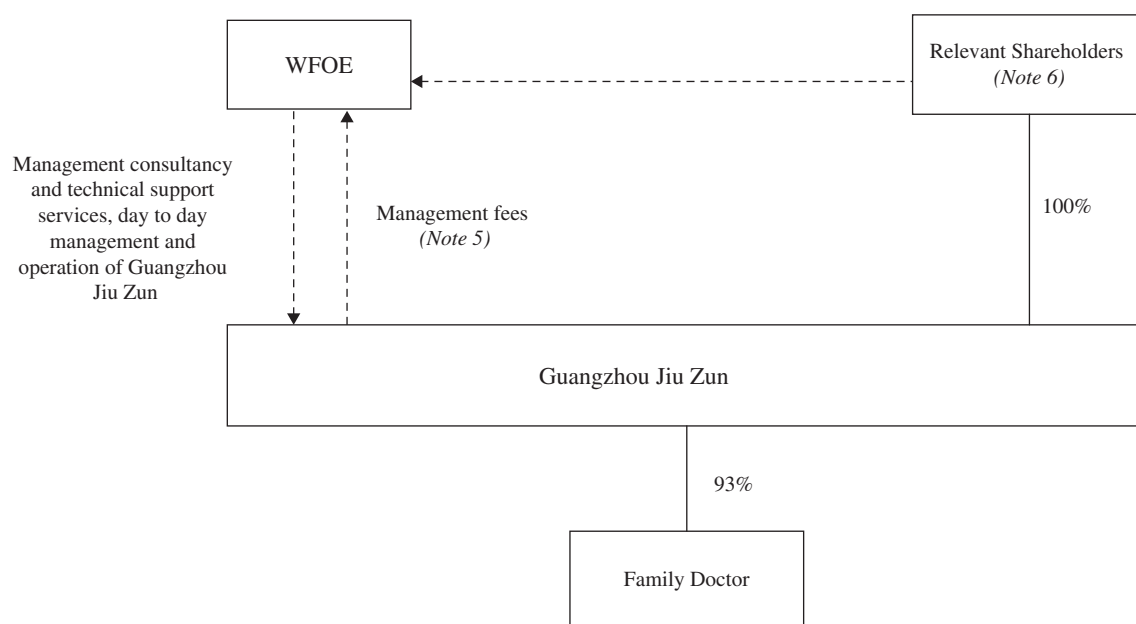
Our Group will unwind and terminate the Contractual Arrangements as soon as practicable in respect of the operation of our businesses to the extent permissible and we will directly hold the maximum percentage of ownership interest permissible under relevant PRC laws and regulations.

Our Directors believe that the Contractual Arrangements are fair and reasonable because: (i) the Contractual Arrangements were freely negotiated and entered into between WFOE and Guangzhou Jiu Zun; (ii) by entering into the Management Services Agreement with WFOE, the Consolidated Affiliated Entities will enjoy better economic and technical support from us, as well as a better market reputation after the Listing, and (iii) a number of other companies use similar arrangements to accomplish the same purpose.

CONTRACTUAL ARRANGEMENTS

The following simplified diagram illustrates the flow of economic benefits from the Consolidated Affiliated Entities to our Group stipulated under the Contractual Arrangements:

- (1) Irrevocable option to acquire all or part of the equity interest in Guangzhou Jiu Zun (*Note 1*)
- (2) Equity pledge over the entire equity interest in Guangzhou Jiu Zun (*Note 2*)
- (3) Right to purchase and exclusive licence to use the intellectual property rights held by Guangzhou Jiu Zun (*Note 3*)
- (4) Powers of attorney in favor of our Directors to exercise all shareholders' rights in Guangzhou Jiu Zun (*Note 4*)



Notes:

- (1) Please see the section headed "Contractual Arrangements — Irrevocable Option Agreement" of this prospectus for details.
- (2) Please see the section headed "Contractual Arrangements — Equity Pledge Agreement" of this prospectus for details.
- (3) Please see the section headed "Contractual Arrangements — Intellectual Property Transfer and Licence Agreement" of this prospectus for details.
- (4) Please see the section headed "Contractual Arrangements — Voting Rights Proxy Agreement and Powers of Attorney" of this prospectus for details.
- (5) Please see the section headed "Contractual Arrangements — Management Services Agreement" of this prospectus for details.
- (6) The Relevant Shareholders are Mr. Liang, Yujiang Chenghe Investment, Yujiang Yingming Investment, Mr. Xu and Ms. Zhang, holding 32.26%, 26.88%, 26.88%, 7.53% and 6.45% shares in Guangzhou Jiu Zun, respectively.
- (7) "—" denotes direct legal and beneficial ownership in the equity interest and "---" denotes contractual relationship through the Contractual Arrangements.

CONTRACTUAL ARRANGEMENTS

One of registered shareholders of Family Doctor, Mr. Chen, holding 7% of the equity interest in Family Doctor had passed away with his estate pending probate in the PRC and thus his 7% equity interest in Family Doctor could not be brought under the Contractual Arrangements.

Our PRC Legal Advisers have advised us that, in accordance with SAFE Circular No. 37, if the Contractual Arrangements are entered into with Family Doctor and its registered shareholders holding 93% equity interest excluding the late Mr. Chen, all registered shareholders holding 93% equity interest in Family Doctor are required to complete their registration under the SAFE Circular No. 37 and a confirmation from Mr. Chen for not conducting the registration under the SAFE Circular No. 37 is needed. As Mr. Chen has passed away and no such confirmation can be provided, Family Doctor cannot act as an entity involved in round-trip investment and thus a signing party under the Contractual Arrangements and Guangzhou Jiu Zun has been established for the purpose of consolidating the 93% equity interest in Family Doctor to facilitate the entering into of the Contractual Arrangements and the registration under the SAFE Circular No. 37. As advised by our PRC Legal Advisers, in relation to the incorporation of JLCY SAGA, LJHJH SAGA, WW SAGA, DW SAGA and LTZL SAGA as investment vehicles, Mr. Liang, Ms. He, Mr. Lu, Ms. Su, Mr. Xu and Ms. Zhang, all of whom are PRC citizens and all the ultimate shareholders of Guangzhou Jiu Zun indirectly holding 93% equity interest in Family Doctor, completed their registration under the SAFE Circular No. 37 on 23 May 2018. Pursuant to the Contractual Arrangements, we are able to assert control over Guangzhou Jiu Zun, which holds 93% equity interest in Family Doctor, and thus the businesses conducted through Family Doctor and its subsidiaries, and enjoy 93% of the economic benefits of Family Doctor and its subsidiaries.

As advised by our PRC Legal Advisers, in accordance with the applicable PRC laws and regulations and the articles of association of Family Doctor, unanimous approval of the registered shareholders is not required for any decision at the level of Family Doctor. Therefore, the entering into of the Contractual Arrangements between WFOE, Guangzhou Jiu Zun and the Relevant Shareholders, through which we indirectly assert control over the businesses conducted through Family Doctor and its subsidiaries, and enjoy 93% of the economic benefits of Family Doctor and its subsidiaries, does not need to be approved by all shareholders of Family Doctor.

CONTRACTUAL ARRANGEMENTS

SUMMARY OF THE MATERIAL TERMS OF THE CONTRACTUAL ARRANGEMENTS

A description of each of the specific agreements that comprise the Contractual Arrangements is set out below.

Management Services Agreement

Under the management services agreement dated 23 February 2019 among WFOE, Guangzhou Jiu Zun and the Relevant Shareholders (the “**Management Services Agreement**”), Guangzhou Jiu Zun agreed to pay a management fee to WFOE and WFOE agreed to provide management consultancy services to Guangzhou Jiu Zun on an exclusive basis and shall be responsible for the day to day management and operation of Guangzhou Jiu Zun, including:

- conducting market research and investigation, formulating Guangzhou Jiu Zun’s budget, business objectives, development guidelines and expansion strategies, expanding and promoting Guangzhou Jiu Zun’s business plan and determining Guangzhou Jiu Zun’s service charges;
- formulating and implementing various business processes, case approval systems and risk control management systems;
- establishing the administrative system of Guangzhou Jiu Zun, selecting and nominating competent persons with related experience as directors, general managers, senior management and employees of Guangzhou Jiu Zun and providing staff training as and when necessary or appropriate;
- disposing of Guangzhou Jiu Zun’s assets;
- formulating and implementing the accounting and financial systems and internal control systems; and
- entering into licensing agreements (including software, trademarks, patents and technical secrets) of intellectual property directly or through WFOE’s nominated parties, such agreements shall allow Guangzhou Jiu Zun to use, when required by business, WFOE’s relevant intellectual property.

Under the Management Services Agreement, the service fee shall be in the amount equivalent to the total revenue of Guangzhou Jiu Zun after deducting all relevant costs, expenses and taxes payable by Guangzhou Jiu Zun. If there is a loss for a particular year, the service fee shall not accrue until Guangzhou Jiu Zun achieves a surplus. WFOE shall calculate the service fee on a six-month basis and issue a corresponding invoice to Guangzhou Jiu Zun.

CONTRACTUAL ARRANGEMENTS

The Management Services Agreement also provides that WFOE shall enjoy exclusive proprietary rights over all rights, ownership and intellectual property developed or created by Guangzhou Jiu Zun, including but not limited to copyrights, patents, patent applications, trademarks, software, technical secrets, trade secrets and others.

Under the Management Services Agreement, the Relevant Shareholders agreed to pledge all their respective equity interests in Guangzhou Jiu Zun to WFOE as a security interest to guarantee the obligation of Guangzhou Jiu Zun under the Management Services Agreement by way of entering into the Equity Pledge Agreement. Please refer to the paragraph headed “Equity Pledge Agreement” of this section for further details.

The Management Services Agreement shall remain effective unless terminated in accordance with the provisions of the Management Services Agreement.

Any of the parties to the Management Services Agreement may give written notice to the other to terminate part of or the whole Management Services Agreement if the parties are unable to continue their performance of the Management Services Agreement due to legal restrictions, national policies, government administrative actions or any of the events as set out below, including but not limited to:

- where a party breaches any provisions of the Management Services Agreement, such breach rendering the performance of the Management Services Agreement impossible, and such breach is not rectified within 20 days of the written notice given by the non-defaulting party;
- where a force majeure event has occurred for more than 120 days; and
- where PRC laws allows WFOE to directly hold equity interest in Guangzhou Jiu Zun and the Relevant Shareholders have completed the registration of the transfer of equity interest in Guangzhou Jiu Zun to WFOE with the relevant administration for industry and commerce in accordance with PRC laws.

Irrevocable Option Agreement

Under the irrevocable option agreement dated 23 February 2019 among WFOE, Guangzhou Jiu Zun and the Relevant Shareholders (the “**Irrevocable Option Agreement**”), Guangzhou Jiu Zun and the Relevant Shareholders agreed to irrevocably grant to WFOE the exclusive right to purchase all or part of the equity interest in Guangzhou Jiu Zun and agreed that WFOE has right to transfer such purchase right to a third party without the consent of Guangzhou Jiu Zun and the Relevant Shareholders.

CONTRACTUAL ARRANGEMENTS

The Relevant Shareholders, among other things, have covenanted that:

- they shall not sell, transfer, mortgage, lease, gift or otherwise dispose of the equity interest in Guangzhou Jiu Zun or establish any limits on the rights of the relevant equity without the written consent of WFOE;
- they shall not sell, transfer, mortgage, or otherwise dispose of the assets, obligations, income or benefit rights of Guangzhou Jiu Zun or establish any encumbrances over such assets, obligations, income or benefit rights of Guangzhou Jiu Zun without the written consent of WFOE;
- they shall not involve Guangzhou Jiu Zun separately or collectively in any transaction that may have a material bearing on Guangzhou Jiu Zun's assets, liabilities, operations, shareholders' equity, or other legal rights (unless the transaction relates to Family Doctor's daily operations or the Relevant Shareholders have already notified WFOE and WFOE has agreed in writing);
- they shall not supplement or modify the constitutional documents of Guangzhou Jiu Zun either separately or collectively in any form, nor shall it increase or decrease Guangzhou Jiu Zun's registered capital or otherwise change its registered capital structure so as to result in a material change in Guangzhou Jiu Zun's assets, liabilities, business, shareholders' equity or other legal rights;
- they shall not sign, make, perform or procure other necessary persons to sign, make or perform any action, any contracts, undertakings, instruments and documents as required by WFOE that may lead to WFOE or a third party designated by it to validly obtain the equity interest in Guangzhou Jiu Zun free of encumbrances;
- they shall not procure or permit Guangzhou Jiu Zun or any other person to merge or unite, or to acquire or invest in any other person, or procure or permit Guangzhou Jiu Zun to sell any assets of RMB100,000 or above without the prior written consent of WFOE;
- they shall operate Guangzhou Jiu Zun prudently and safeguard Guangzhou Jiu Zun's assets and take all necessary measures to maintain the integrity of Guangzhou Jiu Zun's equity interest;
- they shall notify WFOE of any litigation, arbitration or administrative proceedings that will occur or may occur in relation to Guangzhou Jiu Zun's assets, business or income;

CONTRACTUAL ARRANGEMENTS

- they shall sign all necessary or appropriate documents, take all necessary or appropriate actions or raise any necessary or appropriate complaints or appropriate defenses against any claims to protect Guangzhou Jiu Zun's rights to its assets;
- they shall ensure Guangzhou Jiu Zun does not distribute dividends in any form to its shareholders without the prior written consent of WFOE. Guangzhou Jiu Zun shall immediately distribute all distributable profits to its shareholders upon the written request of WFOE;
- at the request of WFOE, they shall appoint any person nominated by WFOE to act as a director of Guangzhou Jiu Zun and/or to remove any existing director of Guangzhou Jiu Zun;
- Guangzhou Jiu Zun may not be dissolved or liquidated without WFOE's written consent unless required by PRC law; and
- they shall not do anything that may threaten or adversely affect WFOE's right to purchase shares. If there is any possibility of circumstances that may threaten or adversely affect such right, it shall immediately notify WFOE.

The Relevant Shareholders have undertaken that, subject to the relevant laws and regulations, they will return to WFOE any consideration they receive in the event that WFOE exercises the option under the Irrevocable Option Agreement to acquire the equity interests in Guangzhou Jiu Zun.

The Relevant Shareholders have also undertaken, in the event of death or any other event which causes the inability of the shareholder to perform their day-to-day obligations, bankruptcy, marriage or divorce, to transfer all of the equity interests, including rights and obligations in Guangzhou Jiu Zun, held by them without consideration to WFOE or an individual or legal entity designated by WFOE under applicable PRC laws.

The Irrevocable Option Agreement shall remain effective until it is terminated in accordance with the provision of the Irrevocable Option Agreement.

Equity Pledge Agreement

Under the equity pledge agreement dated 23 February 2019 entered into among WFOE, Guangzhou Jiu Zun and the Relevant Shareholders (the "**Equity Pledge Agreement**"), the Relevant Shareholders agreed to pledge all their respective equity interests (the "**Pledged Equity Interests**") in Guangzhou Jiu Zun, the aggregate being the entire equity interest in Guangzhou Jiu Zun, including any interest or dividend paid for the shares, to WFOE as a security interest to guarantee the obligation of Guangzhou Jiu Zun to pay the management fee under the Management Services Agreement to WFOE.

CONTRACTUAL ARRANGEMENTS

Pursuant to the Equity Pledge Agreement, the Relevant Shareholders and Guangzhou Jiu Zun undertake to WFOE that each of them shall not, among other matters:

- (a) transfer the Pledged Equity Interests or create or allow further pledge or encumbrance over the Pledged Equity Interests without the prior written consent of WFOE;
- (b) dispose of or in any other form to dispose of the current assets of the Relevant Shareholders and Guangzhou Jiu Zun (otherwise than disposals arising in the normal operations), including but not limited to transfer, sale, assign, mortgage, pledge, lien, lease, give away the aforesaid current assets or set restrictions thereon;
- (c) enter into or incur any external loan or give any guarantee for any external loan without the prior written consent of WFOE (otherwise than the normal operations);
- (d) change its key management personnel, including but not limited to directors, deputy directors, general manager, deputy general manager, chief financial officers, without the prior written consent of WFOE;
- (e) declare dividends as well as petition for bankruptcy, liquidation, dissolution, termination, corporate separation and merger without the prior written consent of WFOE;
- (f) alter its constitutional documents and change of its company's name or business scopes without the prior written consent of WFOE; and
- (g) take away the core businesses of its controlled entities or do any things that will cause or incur substantial loss or reduction of net asset value of its controlled entities.

Apart from the above, the Relevant Shareholders and Guangzhou Jiu Zun shall irrevocably authorize and agree WFOE and its accountants, legal counsels and authorized agents to enter its place of business at reasonable time, and to allow them to inspect and examine the book of accounts, financial statements, records and any other documents in relation to the Pledged Equity Interests or the exercise or implementation of the rights of WFOE as contemplated under the Equity Pledge Agreement. Our PRC Legal Advisers confirm that the aforementioned rights of WFOE are legally binding and enforceable.

Our PRC Legal Advisers further confirm that Yujiang Chenghe Investment and Yujiang Yingming Investment are legally established limited partnerships with full capacity for civil conduct and civil rights under PRC laws, therefore both of them are eligible to sign the Contractual Arrangements, and can bear corresponding legal liabilities according to the Contractual Arrangements.

CONTRACTUAL ARRANGEMENTS

The pledge in respect of Guangzhou Jiu Zun takes effect upon the completion of registration with the relevant administration for industry and commerce and shall remain valid until all the contractual obligations of the Relevant Shareholders and Guangzhou Jiu Zun under the Equity Pledge Agreement have been fully performed and all the outstanding debts of the Relevant Shareholders and Guangzhou Jiu Zun under the relevant Management Services Agreement have been fully paid.

If Guangzhou Jiu Zun fails to perform its obligations under the Management Services Agreement, or if the Relevant Shareholders or Guangzhou Jiu Zun violates any of the obligations under the Equity Pledge Agreement, WFOE shall have the right to exercise all its rights as a secured party under any applicable PRC law and the Equity Pledge Agreement, including but not limited to, recovering all payments (including but not limited to dividends) payable under or payable in relation to the Equity Pledge Agreement.

As at the Latest Practicable Date, the pledges by the Relevant Shareholders have been registered with the relevant PRC authorities as required under the relevant PRC laws and regulations.

Intellectual Property Transfer and Licence Agreement

Pursuant to the intellectual property transfer and licence agreement dated 23 February 2019 entered into among WFOE, Guangzhou Jiu Zun and the Relevant Shareholders (the “**Intellectual Property Transfer and Licence Agreement**”), Guangzhou Jiu Zun agreed to irrevocably grant to WFOE the right to purchase, and the exclusive licence to use, the intellectual property rights held by Guangzhou Jiu Zun and the Consolidated Affiliated Entities at nil consideration, and agreed that WFOE shall have the right to assign the right to purchase and the exclusive licence to a third party without the consent of Guangzhou Jiu Zun and the Consolidated Affiliated Entities or the Relevant Shareholders.

Pursuant to the Intellectual Property Transfer and Licence Agreement, unless required by PRC law, Guangzhou Jiu Zun and the Consolidated Affiliated Entities shall enter into an intellectual property transfer agreement (the “**Intellectual Property Transfer Agreement**”) and an exclusive licence for intellectual property use agreement (the “**Exclusive Licence for Intellectual Property Use Agreement**”) within 15 working days after the signing of the Intellectual Property Transfer and Licence Agreement, and submit an application for registration of the intellectual property transfer and the licence for use of intellectual property with the relevant patent or trademark office. The Exclusive Licence for Intellectual Property Use Agreement shall remain effective until the completion of the registration of the intellectual property transfer.

CONTRACTUAL ARRANGEMENTS

Pursuant to the Intellectual Property Transfer and Licence Agreement, with regards to the intellectual property rights that are subject to mandatory transfer restrictions under PRC laws, Guangzhou Jiu Zun and the Consolidated Affiliated Entities shall enter into the Exclusive Licence for Intellectual Property Use Agreement within 15 working days after the signing of the Intellectual Property Transfer and Licence Agreement, and submit an application for registration of the licence for use of intellectual property with the relevant patent or trademark office. The Exclusive Licence for Intellectual Property Use Agreement shall be for a term of 10 years and Guangzhou Jiu Zun and the Consolidated Affiliated Entities shall renew the agreement upon its expiry. Once the mandatory transfer restrictions under PRC laws have been lifted, Guangzhou Jiu Zun and the Consolidated Affiliated Entities shall irrevocably transfer the intellectual property rights to WFOE.

Voting Rights Proxy Agreement and Powers of Attorney

Pursuant to the Voting Rights Proxy Agreement and Powers of Attorney dated 23 February 2019 entered into among the Relevant Shareholders, WFOE and Guangzhou Jiu Zun, the Relevant Shareholders, through the voting rights proxy agreement (“**Voting Rights Proxy Agreement**”) and powers of attorney (the “**Powers of Attorney**”), agreed to irrevocably appoint WFOE and its successors (including but not limited to Directors and their successors and liquidators replacing the Directors but excluding those non-independent or who may give rise to conflict of interests) to act as their exclusive agent to exercise the rights of the shareholders of Guangzhou Jiu Zun without giving notice to the Relevant Shareholders or consent of the Relevant Shareholders, and the Relevant Shareholders shall undertake to bear all the liabilities of the exercise of such rights by WFOE or its direct or indirect shareholders, including without limitation:

- the right to propose, convene and attend shareholders’ meetings of Guangzhou Jiu Zun;
- to sell or transfer or pledge or dispose of all or part of the Relevant Shareholders’ equity interest in Guangzhou Jiu Zun, to dispose of Guangzhou Jiu Zun’s asset rights;
- the right to exercise shareholders’ voting rights in shareholders’ meetings;
- to act as, nominate and appoint the authorized representative, director, supervisor, general manager and other senior management of Guangzhou Jiu Zun;
- the right to sign any transfer documents, minutes or other documents for Guangzhou Jiu Zun to effect the relevant agreements, materials or all other documents;

CONTRACTUAL ARRANGEMENTS

- to file documents with the relevant companies registry;
- the right to process any matters that shareholders are obligated to handle in accordance with relevant laws and/or agreements but failed to do so;
- to exercise all rights and powers of the pledged shares under the Equity Pledge Agreement;
- to sign all the necessary documents and handle all necessary matters so that WFOE and its successors may fully exercise all or any of the powers as stipulated in the laws of the PRC such as the Company Law, the Articles of Association and/or other agreements (including but not limited to the right to dispose of Guangzhou Jiu Zun's remaining property after liquidation of Guangzhou Jiu Zun in accordance with the law); and
- to rectify and confirm by WFOE any matters that any Relevant Shareholders have implemented or intend to implement according to the Powers of Attorney, except as a result of gross negligence or wilful misconduct.

The Powers of Attorney also provided that, in order to avoid potential conflicts of interest, where the Relevant Shareholders are officers or directors of Guangzhou Jiu Zun or the Company, the powers of attorney will be granted in favor of other unrelated officers or directors of Guangzhou Jiu Zun or the Company.

The Voting Rights Proxy Agreement shall remain effective for a term of 10 years unless extended by WFOE in accordance with the Voting Rights Proxy Agreement. The Powers of Attorney shall remain effective for so long until the Management Services Agreement, Irrevocable Option Agreement, Equity Pledge Agreement and, Intellectual Property Transfer and Licence Agreement and Voting Rights Proxy Agreement have been rescinded or terminated.

Spousal Undertaking

The spouse of each of the Relevant Shareholders (in the case of Yujiang Chenghe Investment and Yujiang Yingming Investment, being the spouse of the respective ultimate shareholders of Yujiang Chenghe Investment and Yujiang Yingming Investment), where applicable, has executed a written undertaking to the effect that:

- (i) the spouse unconditionally and irrevocably consents to the execution of the Contractual Arrangements by such Relevant Shareholder and agrees to deal with such Relevant Shareholders' equity interest in Guangzhou Jiu Zun in accordance with the Contractual Arrangements;

CONTRACTUAL ARRANGEMENTS

- (ii) the spouse confirms that he/she does not have and shall not claim any equity interest in Guangzhou Jiu Zun, that he/she has not, is not and will not be involved in the management, liquidation and dissolution of Guangzhou Jiu Zun, and that his/her authorization or consent is not required for such Relevant Shareholder's performance of the obligations under the Contractual Arrangements and for further amendment or termination of the Contractual Arrangements;
- (iii) the spouse undertakes to sign and execute all necessary documents and to take all necessary actions to ensure the proper performance of the Contractual Arrangements;
- (iv) the spouse undertakes not to take any actions or make any omissions contrary to the purposes and intent of the Contractual Arrangements;
- (v) the spouse confirms that such Relevant Shareholder's equity interests in Guangzhou Jiu Zun are assets solely owned by such Relevant Shareholder and do not fall within the scope of communal properties; and
- (vi) in the event that the spouse obtains any interests in Guangzhou Jiu Zun, he/she will be subject to and abide by the terms of the Contractual Arrangements as if he/she was a signing party to the such Contractual Arrangements, and at the request of WFOE he/she will sign any documents in the form and substance consistent with the Contractual Arrangements.

Our PRC Legal Advisers are of the view that (i) the above arrangements provide protection to our Group even in the event of death or divorce of any Relevant Shareholder; and (ii) the death or divorce of such shareholder would not affect the validity of the Contractual Arrangements, and WFOE or our Company can still enforce their right under the Contractual Arrangements against the Relevant Shareholder.

Protection in the Event of Death, Bankruptcy or Divorce of the Relevant Shareholders

According to the Contractual Arrangements, the Relevant Shareholders undertake to WFOE that, in the event of death, loss of or restriction on capacity, divorce or other circumstances regarding the Relevant Shareholders which may affect the exercise of his/her direct or indirect equity interest in Guangzhou Jiu Zun, the Relevant Shareholders' respective successor, guardian, spouse, and any other person which may as a result of the above events obtain the equity interest or relevant rights directly or indirectly, will be deemed as a signing party to the Contractual Arrangements and be obliged to the rights and liabilities under the Contractual Arrangements and shall not prejudice or hinder the enforcement of the Contractual Arrangements.

CONTRACTUAL ARRANGEMENTS

Dispute Resolution

Each of the agreements under the Contractual Arrangements contains a dispute resolution provision. Pursuant to such provision, in the event of any dispute arising from the performance of or relating to the Contractual Arrangements, any party has the right to submit the relevant dispute to the Shenzhen International Arbitration Center (“SZIAC”) for arbitration, in accordance with the then effective arbitration rules. The arbitration shall take place in Shenzhen and the arbitration award shall be final and binding on all parties. Unless otherwise determined by the SZIAC, the costs for the arbitration shall be borne by the losing party. The dispute resolution provisions also provide that the arbitral tribunal may award interim remedies over the shares or property assets of Guangzhou Jiu Zun, injunctive relief (in relation to the conduct of business or to compel the transfer of assets) or order the winding up of Guangzhou Jiu Zun. During the formation of the arbitration court or when necessary, the parties agree to grant to the district court (including but not limited to Hong Kong, the Cayman Islands (being the place of incorporation of our Company), and the PRC (being the place of incorporation of Guangzhou Jiu Zun and the jurisdiction where the majority of our Company’s assets are located)) the power to impose temporary measures in support of the arbitration.

However, our PRC Legal Advisers have advised that the above provisions may not be enforceable under the PRC laws. For instance, the arbitral tribunal has no power to grant such injunctive relief pursuant to the current PRC laws. In addition, interim remedies or enforcement order granted by overseas courts such as Hong Kong and the Cayman Islands may not be recognizable or enforceable in the PRC.

As a result of the above, in the event that Guangzhou Jiu Zun or the Relevant Shareholders breach 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 Consolidated Affiliated Entities and conduct of our business could be materially and adversely affected. Please see the section headed “Risk Factors — Risks Relating to Our Contractual Arrangements” of this prospectus for further details.

Loss Sharing

Under the relevant PRC laws and regulations, none of our Company and WFOE is legally required to share the losses of or provide financial support to the Consolidated Affiliated Entities. Further, the Consolidated Affiliated Entities are limited liability companies and shall be solely liable for their own debts and losses with assets and properties owned by it. WFOE intends to continuously provide to or assist the Consolidated Affiliated Entities in obtaining financial support when deemed necessary. In addition, given that our Group conducts a substantial portion of its business operations in the PRC through the Consolidated Affiliated Entities, which hold the requisite PRC operational licenses and approvals, and that their financial position and results of operations are consolidated into our Group’s financial

CONTRACTUAL ARRANGEMENTS

statements under the applicable accounting principles, our Company's business, financial position and results of operations would be adversely affected if the Consolidated Affiliated Entities suffer losses.

However, as provided in the Irrevocable Option Agreement, without the prior written consent of WFOE, Guangzhou Jiu Zun shall not, among others, (i) allow mortgages, pledges, liens or any other third-party rights to encumber its equity except for the Equity Pledge Agreement; (ii) sell, transfer, mortgage, lease, gift or otherwise dispose of the equity in Guangzhou Jiu Zun or establish any limits on the rights of the relevant equity; (iii) sell, transfer, mortgage, or otherwise dispose of the assets, obligations, income or benefit rights of Guangzhou Jiu Zun or establish any encumbrances over such assets, obligations, income or benefit rights of Guangzhou Jiu Zun; (iv) involve Guangzhou Jiu Zun separately or collectively in any transaction that may have a material bearing on Guangzhou Jiu Zun's assets, liabilities, operations, equity or other legal rights; (v) increase or reduce its registered capital, or alter the structure of the registered capital in any other way; (vi) enter into any consolidation or merger with any third party, or being acquired by or invest in any third party or to sell any assets of more than RMB100,000; and (vi) dissolve or liquidate Guangzhou Jiu Zun unless required by PRC law. Therefore, due to the relevant restrictive provisions in the agreements, the potential adverse effect on the WFOEs and our Company in the event of any loss suffered from Guangzhou Jiu Zun can be limited to a certain extent.

Insurance

Our Company does not maintain an insurance policy to cover the risks relating to the Contractual Arrangements.

Our Confirmation

As of the Latest Practicable Date, we had not encountered any interference or encumbrance from any PRC governing bodies in operating its businesses through the Consolidated Affiliated Entities under the Contractual Arrangements.

LEGALITY OF THE CONTRACTUAL ARRANGEMENTS

Based on the above, our PRC Legal Advisers are of the opinion that the Contractual Arrangements are narrowly tailored to minimize the potential conflict with relevant PRC laws and regulations and that:

- (a) each of the Consolidated Affiliated Entities and WFOE was duly established and is validly existing and their respective establishment is valid, effective and complies with the relevant PRC laws and regulations;
- (b) parties to each of the Contractual Arrangements have obtained all necessary approvals and authorizations to execute and perform the Contractual Arrangements;

CONTRACTUAL ARRANGEMENTS

- (c) parties to each of the agreements are entitled to execute the agreements and perform their respective obligations thereunder. Each of the agreements is binding on the parties thereto and none of them would be deemed as “concealment of illegal intentions with a lawful form” and void under the PRC Contract Law;
- (d) none of the Contractual Arrangements violates any provisions of the articles of association of WFOE or Guangzhou Jiu Zun;
- (e) the parties to each of the Contractual Arrangements are not required to obtain any approvals or authorizations from the PRC government authorities, except that:
 - (i) the exercise of the option by WFOE of its rights under the Irrevocable Option Agreement to acquire all or part of the equity interests in Guangzhou Jiu Zun are subject to the approvals of and/or registrations with the PRC regulatory authorities;
 - (ii) any equity pledge contemplated under the Equity Pledge Agreement are subject to the registration with local administration bureau for industry and commerce;
 - (iii) the arbitration awards/interim remedies provided under the dispute resolution provision of the Contractual Arrangements shall be recognized by PRC courts before compulsory enforcement.
- (f) each of the Contractual Arrangements is valid, legal and binding under PRC laws and regulations, except that, the Contractual Arrangements provide that the arbitral body may award remedies over the shares and/or assets of Guangzhou Jiu Zun, injunctive relief and/or winding up of Guangzhou Jiu Zun, and that courts of competent jurisdictions are empowered to grant interim remedies in support of the arbitration pending the formation of an arbitral tribunal, while under PRC laws, the arbitral body has no power to grant injunctive relief and may not directly issue a provisional or final liquidation order for the purpose of protecting assets of or equity interests in Guangzhou Jiu Zun in case of disputes. In addition, interim remedies or enforcement orders granted by overseas courts such as in Hong Kong and the Cayman Islands may not be recognizable or enforceable in the PRC.

Notwithstanding the foregoing, our PRC Legal Advisers consulted the Administration of Press, Publication Film and Television of Guangdong (廣東省新聞出版廣電局) and Guangdong Provincial Department of Culture and Tourism (廣東省文化和旅遊廳), being the competent government authorities and the primary regulatory authorities supervising our businesses, which confirmed that our Contractual Arrangements would not be challenged or subject to penalty due to violation of any PRC laws or regulations. Our PRC Legal Advisers have advised us that (i) such authorities are competent government authorities for our businesses and are competent to interpret the relevant PRC laws, regulations and rules for the industry in which we operate our businesses and make the abovementioned confirmations; and

CONTRACTUAL ARRANGEMENTS

(ii) based on such consultations, the adoption of the Contractual Arrangements is unlikely to be deemed ineffective or invalid under the applicable PRC laws and regulations. Our PRC Legal Advisers are of the view that the adoption of the Contractual Arrangements does not constitute a breach of the relevant PRC laws and regulations.

Based on the above analysis and advice from our PRC Legal Advisers, the Directors are of the view that the adoption of the Contractual Arrangements is unlikely to be deemed ineffective or invalid under the applicable PRC laws and regulations. Please see the section headed “Risk Factors — Risks Relating to Our Contractual Arrangements” of this prospectus for details.

We are aware of a Supreme People’s Court ruling (the “**Supreme People’s Court Ruling**”) made in October 2012 and two arbitral decisions from the Shanghai International Economic and Trade Arbitration Commission made in 2010 and 2011 which invalidated certain contractual agreements for the reason that the entry into of such agreements with the intention of circumventing foreign investment restrictions in the PRC contravene the prohibition against “concealing an illegitimate purpose under the guise of legitimate acts” set out in Article 52 of the PRC Contract Law and the General Principles of the PRC Civil Law. It has been further reported that these court rulings and arbitral decisions may increase (i) the possibility of PRC courts and/or arbitration panels taking similar actions against contractual structures commonly adopted by foreign investors to engage in restricted or prohibited businesses in the PRC and (ii) the incentive for the Relevant Shareholders under such contractual structures to renege on their contractual obligations. Pursuant to Article 52 of the PRC Contract Law, a contract is void under any of the following five circumstances: (i) the contract is concluded through the use of fraud or coercion by one party and thereby damages the interest of the State; (ii) malicious collusion is conducted to damage the interest of the State, a collective unit or a third party; (iii) the contract damages the public interest; (iv) an illegitimate purpose is concealed under the guise of legitimate acts; or (v) the contract violates the mandatory provisions of the laws and administrative regulations. Our PRC Legal Advisers are of the view that the relevant terms of our Contractual Arrangements do not fall within the above five circumstances. In particular, our PRC Legal Advisers are of the view that the Contractual Arrangements would not be deemed as “concealing illegal intentions with a lawful form” such that they also do not fall within circumstance (iv) above under Article 52 of the PRC Contract Law because the Contractual Arrangements were not entered into for illegitimate purposes. The purpose of the Contractual Arrangements are (a) to enable Guangzhou Jiu Zun to transfer its economic benefits to WFOE as service fees for engaging WFOE as their exclusive service provider and (b) to ensure that the Relevant Shareholders do not take any actions that are contrary to the interests of the WFOEs. In accordance with Article 4 of the PRC Contract Law, which is a section of the 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. In addition, the

CONTRACTUAL ARRANGEMENTS

effect of the Contractual Arrangements, which is to allow our Company to list on the Stock Exchange while obtaining the economic benefits of Guangzhou Jiu Zun, is not for an illegitimate purpose, as evidenced by the fact that a number of currently listed companies also adopt similar contractual arrangements. In conclusion, our PRC Legal Advisers is of the view that the Contractual Arrangements do not fall within any of the five circumstances set forth in Article 52 of the PRC Contract Law.

ACCOUNTING ASPECTS OF THE CONTRACTUAL ARRANGEMENTS

Consolidation of Financial Results of our Consolidated Affiliated Entities

Under the Management Services Agreement, it was agreed that, in consideration of the services provided by WFOE, Guangzhou Jiu Zun will pay services fees to WFOE. WFOE has the right to periodically receive or inspect the accounts of our Consolidated Affiliated Entities. In addition, under the Irrevocable Option Agreement, WFOE has absolute contractual control over the distribution of dividends to the equity holders of our Consolidated Affiliated Entities as WFOE's prior written consent is required before any distribution can be made. In the event that the Relevant Shareholders receive any distribution of dividends from our Consolidated Affiliated Entities, the Relevant Shareholders must immediately pay or transfer such amount (subject to the relevant tax payment being made under the relevant laws and regulations) to our Company. Further, under the Voting Rights Proxy Agreement and Powers of Attorney, WFOE assumes all rights as shareholder and exercises control over the Consolidated Affiliated Entities, including the right to propose, convene and attend shareholders' meetings and to execute any all meeting minutes or other documents, the right to sell, transfer, pledge or dispose of equity interest, the right to exercise shareholders' voting rights and to act as, nominate and appoint the authorized representative, director, supervisor, general manager and other senior management members of Guangzhou Jiu Zun.

In this regard, our Directors consider that our Company can consolidate the financial results of our Consolidated Affiliated Entities into our Group's financial information as if they were our Company's subsidiaries. Please see the section headed "Accountants' Report" in Appendix I to this prospectus for the basis of consolidating the results of our Consolidated Affiliated Entities.

As a result of the Contractual Arrangements, our Company has obtained control of our Consolidated Affiliated Entities through WFOE and, at our Company's sole discretion, can receive all of the economic interest returns generated by our Consolidated Affiliated Entities. Accordingly, our Consolidated Affiliated Entities' results of operations, assets and liabilities, and cash flows are consolidated into our Company's financial statements.

DEVELOPMENT IN THE PRC LEGISLATION ON FOREIGN INVESTMENT

Draft Foreign Investment Law

The MOFCOM published a discussion draft of the proposed Foreign Investment Law in January 2015 (“**2015 Draft FIL**”) aiming to, upon its enactment, replace the major existing laws and regulations governing foreign investment in the PRC.

On 26 December 2018, the 2018 Draft FIL was promulgated by the National People’s Congress on its official website for public consultation. The 2018 Draft FIL (if enacted) will replace the Law on Sino-Foreign Equity Joint Ventures, the Law on Sino-Foreign Contractual Joint Ventures and the Law on Foreign-Capital Enterprises to become the legal foundation for foreign investment in the PRC. The 2018 Draft FIL stipulates three forms of foreign investment. However, the 2018 Draft FIL does not explicitly stipulate the contractual arrangements as a form of foreign investment.

Updates on the promulgation of the Foreign Investment Law

On 15 March 2019, the Foreign Investment Law was formally passed by the thirteenth National People’s Congress and will take effect on 1 January 2020. The Foreign Investment Law stipulates that “foreign investment” is defined to include four types:

- (i) where foreign investors set up foreign invested enterprises in the PRC severally or jointly with other investors;
- (ii) where foreign investors acquire shares, equity, properties or other similar interests in any domestic enterprise;
- (iii) where foreign investors invest in new projects in the PRC severally or jointly with other investors; and
- (iv) where foreign investors invest through any other methods under laws, administrative regulations, or provisions prescribed by the State Council of the PRC.

However, the Foreign Investment Law does not specifically stipulate rules on the industry we operate in. The Foreign Investment Law does not explicitly stipulate the contractual arrangements as a form of foreign investment.

Our PRC Legal Advisers have advised us that in respect of the legislative procedures under the PRC laws and regulations, the Foreign Investment Law has been promulgated by the National People’s Congress of the PRC (全國人民代表大會) and thus, the 2018 Draft FIL and the 2015 Draft FIL are no longer applicable.

CONTRACTUAL ARRANGEMENTS

Please see the section headed “Regulatory Overview — Restrictions on Foreign Investment” of this prospectus for details.

Impact and Potential Consequences of the Foreign Investment Law on the Contractual Arrangements

Conducting operations through contractual arrangements has been adopted by many PRC-based companies, including us, to obtain and maintain necessary licenses and permits in the industries that are currently subject to foreign investment restrictions or prohibitions in the PRC. The Foreign Investment Law does not explicitly stipulate the contractual arrangements as a form of foreign investment. If the then laws, regulations and rules do not incorporate contractual arrangements as a form of foreign investment, the Foreign Investment Law would not apply to our Contractual Arrangements, and it does not substantially change the identification of foreign investors in the field of foreign investment and the principle of recognition and treatment of contractual arrangements compared with the current PRC laws and regulations, therefore our Contractual Arrangements as a whole and each of the agreements comprising the Contractual Arrangements will not be affected.

Notwithstanding the above, the Foreign Investment Law stipulates that foreign investors investing through any other methods stipulated under laws, administration regulations or provisions under the State Council of the PRC may be considered as a form of foreign investment. It is therefore possible that futures laws, administration regulations or provisions under the State Council of the PRC may stipulate contractual arrangements as a way of foreign investment. However, as of the Latest Practicable Date, it is uncertain as to how the contractual arrangements will be handled. Please see the section headed “Risk Factors – Risks relating to our Contractual Arrangements – Uncertainties exist with respect to the interpretation and implementation of the Foreign Investment Law and how it may impact the viability of our current corporate structure, corporate governance and business operations” of this prospectus for further details of risks relating to the Foreign Investment Law.

Our PRC Legal Advisers are of the view that, since contractual arrangements are not specified as investments under the Foreign Investment Law, and if future laws, administrative regulations and provisions of the State Council do not incorporate contractual arrangements as a form of foreign investment, the Foreign Investment Law would not apply to our Contractual Arrangements, and it does not substantially change the identification of foreign investors in the field of foreign investment and the principle of recognition and treatment of contractual arrangements compared with the current PRC laws and regulations, therefore our Contractual Arrangements as a whole will not be materially affected and will continue to be legal, valid and binding on the parties when the Foreign Investment Law becomes effective on 1 January 2020.

CONTRACTUAL ARRANGEMENTS

Potential impact to our company in the worst scenario pursuant to the Foreign Investment Law that the contractual arrangements are treated as a foreign investment

If our businesses are no longer “prohibited” and “restricted” under the Negative List (2019 Version) and our Group can legally operate our businesses under PRC Laws, WFOE will exercise the Irrevocable Option Agreement to acquire all of the equity interest in Guangzhou Jiu Zun and unwind the Contractual Arrangements subject to re-approval by the relevant authorities.

If our businesses are “prohibited” and/or “restricted” under the Negative List (2019 Version), the Contractual Arrangements may be viewed as restricted foreign investment. If the futures laws, administration regulations or provisions under the State Council of the PRC stipulate Contractual Arrangements as a form of foreign investment, our Contractual Arrangements may be regarded as invalid and illegal. As a result, our Group would not be able to operate our Consolidated Affiliated Entities through the Contractual Arrangements and we would lose our rights to receive the economic benefits of our Consolidated Affiliated Entities. As a result, the financial results of our Consolidated Affiliated Entities would no longer be combined into our Group’s financial results and we would have to derecognize their assets and liabilities according to the relevant accounting standards. An investment loss would be recognized as a result of such derecognition.

Nevertheless, considering that a number of existing conglomerates are operating under contractual arrangements and some of which have obtained listing status abroad, our Directors are of the view that it is unlikely that the relevant regulations will take retrospective effect to require the relevant enterprises to remove the contractual arrangements.

However, there are uncertainties regarding the Foreign Investment Law including, among others, the relevant government authorities will have a broad discretion in interpreting the law and may ultimately take a view that is inconsistent with our PRC Legal Advisers’ understanding. In any event, our Company will take reasonable steps in good faith to seek to comply with the Foreign Investment Law.

COMPLIANCE WITH THE CONTRACTUAL ARRANGEMENTS

Our Group has adopted the following measures to ensure the effective operation of our Group with the implementation of the Contractual Arrangements and our compliance with the Contractual Arrangements:

1. major issues arising from the implementation and compliance with the Contractual Arrangements or any regulatory enquiries from government authorities will be submitted to our Board, if necessary, for review and discussion on an occurrence basis;

CONTRACTUAL ARRANGEMENTS

2. our Board will review the overall performance of and compliance with the Contractual Arrangements at least once a year;
3. our Company will disclose the overall performance and compliance with the Contractual Arrangements in its annual reports and interim reports to update the Shareholders and potential investors;
4. our Company will engage external legal advisors or other professional advisors, if necessary, to assist the Board to review the implementation of the Contractual Arrangements, review the legal compliance of WFOE and the Consolidated Affiliated Entities to deal with specific issues or matters arising from the Contractual Arrangements.

CONNECTED TRANSACTIONS

We have entered into a number of agreements with our connected persons, the details of which are set out below. The transactions disclosed in this section will constitute our continuing connected transactions under Chapter 14A of the Listing Rules upon Listing.

EXEMPT CONTINUING CONNECTED TRANSACTION

Background

On 22 February 2019, our Company entered into a corporate secretarial support service agreement with AE Majoris Corporate Services Company Limited (“**Company Secretary Agreement**”), pursuant to which AE Majoris Corporate Services Company Limited agreed to provide company secretarial services to our Company for a period of three years commencing from the Listing Date. The Company Secretary Agreement will take effect upon the Listing Date for a fixed term of 3 years.

Listing Rules implications

Since Mr. Tsui Wing Tak, a non-executive Director, is the sole shareholder of AE Majoris Corporate Services Company Limited, AE Majoris Corporate Services Company Limited will be a connected person of our Company upon Listing and the provision of company secretarial services pursuant to the Company Secretary Agreement will constitute continuing connected transactions for our Company upon Listing.

Annual caps and basis

With reference to the annual professional fees of HK\$600,000 payable by our Company to AE Majoris Corporate Services Company Limited for the provision of company secretarial services pursuant to the Company Secretary Agreement, the aggregate amount of transactions between our Company and AE Majoris Corporate Services Company Limited for each of the three years ending 31 December 2020, 2021 and 2022 will not exceed HK\$600,000. The professional fees under the Company Secretary Agreement is payable on a monthly basis and was determined after arm’s length negotiations with reference to the prevailing market rates.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Background

As disclosed in the section headed “Contractual Arrangements” of this prospectus, due to regulatory restrictions on foreign ownership in the PRC, we cannot directly or indirectly, hold any equity interest in the Consolidated Affiliated Entities, which hold certain licenses and permits required for the operation of our businesses. As a result, our Group has entered into the Contractual Arrangements with Guangzhou Jiu Zun and its shareholders, including but not limited to Mr. Liang, Yujiang Yingming Investment and Yujiang Chenghe Investment to enable us to, among others, (i) receive substantially all of the economic benefits from the Consolidated Affiliated Entities in consideration for the services provided by WFOE to

CONNECTED TRANSACTIONS

Guangzhou Jiu Zun; (ii) exercise effective control over the Consolidated Affiliated Entities; and (iii) hold an exclusive option to purchase all or part of the equity interests in Guangzhou Jiu Zun when and to the extent permitted by PRC laws.

The Contractual Arrangements consist of various types of documents. Please see the section headed “Contractual Arrangements” of this prospectus for detailed terms of these documents.

Listing Rules implications

The table below sets forth the connected persons of our Company involved in the Contractual Arrangements and the nature of their relationship with our Group.

Connected person	Connected relationship
Mr. Liang	one of our Controlling Shareholders, an executive Director and our chief financial officer
Mr. Lu	one of our Controlling Shareholders, an executive Director, our Chairman and our chief executive officer
Ms. He	one of our Controlling Shareholders
Ms. Su	one of our Controlling Shareholders and a non-executive Director
Yujiang Yingming Investment	an associate of each of Mr. Lu and Ms. He
Yujiang Chenghe Investment	an associate of Ms. Su
Guangzhou Jiu Zun	an associate of our Controlling Shareholders

Our Directors (including the independent non-executive Directors) are of the view that the transactions contemplated under the Contractual Arrangements are fundamental to our Group’s legal structure and business operations and the nature of transactions contemplated under the Contractual Arrangements require a duration longer than three years. The Contractual Arrangements have been and will be entered into in the ordinary and usual course of business of our Group and are in line with normal business practice, are on normal commercial terms or better and are fair and reasonable and in the interests of our Company and its Shareholders as a whole.

CONNECTED TRANSACTIONS

Accordingly, notwithstanding that the transactions contemplated under the Contractual Arrangements and any new transactions, contracts and agreements or renewal of existing transactions, contracts and agreements to be entered into, among others, by Guangzhou Jiu Zun and any member of our Group technically constitute continuing connected transactions under Chapter 14A of the Listing Rules, our Directors consider that, it would be unduly burdensome and impracticable, and would add unnecessary administrative costs to our Company if such transactions are subject to strict compliance with the requirements set out under Chapter 14A of the Listing Rules, including, among others, the announcement, circular and independent shareholders' approval requirements.

APPLICATION FOR WAIVER

We have applied for, and the Stock Exchange has granted, a waiver from strict compliance with the requirements of (i) the announcement, circular and independent shareholders' approval in respect of the transactions contemplated under the Contractual Arrangements pursuant to Rule 14A.105 of the Listing Rules, (ii) setting annual caps for the transactions contemplated under the Contractual Arrangements under Rule 14A.53 of the Listing Rules, and (iii) limiting the term of the Contractual Arrangements to three years or less under Rule 14A.52 of the Listing Rules, subject to the following conditions:

(1) No changes without independent non-executive Directors' approval.

No changes to the Contractual Arrangements (including with respect to any fees payable to WFOE thereunder) will be made without the approval of our independent non-executive Directors.

(2) No changes without independent Shareholders' approval.

Save as described in paragraph (4) below, no changes to the agreements governing the Contractual Arrangements will be made without the approval of our independent Shareholders. Once the independent Shareholders' approval of any change has been obtained, no further announcement or approval of the independent Shareholders will be required under Chapter 14A of the Listing Rules unless and until further changes are proposed. The periodic reporting requirement regarding the Contractual Arrangements in the annual reports of our Company (as set out in paragraph (5) below) will however continue to be applicable.

CONNECTED TRANSACTIONS

(3) Economic benefits flexibility.

The Contractual Arrangements shall continue to enable our Group to receive the economic benefits derived by the Consolidated Affiliated Entities through: (1) our Group's option (if and when so allowed under the applicable PRC laws) to acquire, all or part of the entire equity interests in Guangzhou Jiu Zun for nominal consideration or the minimum amount of consideration permitted by applicable PRC laws and regulations; (2) the business structure under which the profit generated by the Consolidated Affiliated Entities is substantially retained by our Group, such that no annual cap shall be set on the amount of service fees payable to WFOE under the Management Services Agreement; and (3) our Group's right to control the management and operation of, as well as, in substance, all of the voting rights of Guangzhou Jiu Zun.

(4) Renewal and adoption.

The Contractual Arrangements framework may be renewed and/or adopted upon the expiry of the existing arrangements or in relation to any existing or new wholly foreign owned enterprise or operating company engaging in the same business which our Group might wish to establish, without obtaining the approval of the Shareholders, on substantially the same terms and conditions as the existing Contractual Arrangements. The directors, chief executives or substantial shareholders of these entities will, upon renewal and/or adoption of the Contractual Arrangements, be treated as the 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.

(5) Ongoing reporting and approvals.

We 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 the annual reports and accounts of our Company in accordance with the relevant provisions of the Listing Rules.

CONNECTED TRANSACTIONS

- Our independent non-executive Directors will review the Contractual Arrangements annually and confirm in the annual reports and accounts of our Company 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; (ii) no dividends or other distributions have been made by Guangzhou Jiu Zun 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 Guangzhou Jiu Zun during the relevant financial period under paragraph (4) above are fair and reasonable, or advantageous, so far as our Group is concerned and in the interests of our Company and its Shareholders as a whole.
- 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 the Directors with a copy to the Stock Exchange confirming that the transactions have received the approval of the Directors and have been entered into in accordance with the relevant Contractual Arrangements and that no dividends or other distributions have been made by Guangzhou Jiu Zun to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group.
- For the purposes of Chapter 14A of the Listing Rules, and in particular the definition of "connected person", the Consolidated Affiliated Entities will be treated as our Company's subsidiaries, but at the same time, the directors, chief executives or substantial shareholders (as defined in the Listing Rules) of the Consolidated Affiliated Entities and their respective associates will be treated as connected persons of our Company (excluding for this purpose, the Consolidated Affiliated Entities), and transactions between these connected persons and our Group (including for this purpose, the Consolidated Affiliated Entities), other than those under the Contractual Arrangements, will be subject to requirements under Chapter 14A of the Listing Rules.
- The Consolidated Affiliated Entities will undertake that, for so long as the Shares are listed on the Stock Exchange, the Consolidated Affiliated Entities will provide our Group's management and our Company's auditor with full access to its relevant records for the purpose of our Company's auditor's review of the connected transactions.

CONNECTED TRANSACTIONS

New transactions amongst the Consolidated Affiliated Entities and our Company

Given that the financial results of the Consolidated Affiliated Entities will be consolidated into our financial results and the relationship between the Consolidated Affiliated Entities and our Company under the Contractual Arrangements, all agreements other than the Contractual Arrangements that may be entered into between each of the Consolidated Affiliated Entities and our Company in the future will also be exempted from the “continuing connected transactions” provisions of the Listing Rules.

DIRECTORS’ CONFIRMATION

Our Directors (including independent non-executive Directors) are of the view that the non-exempt continuing connected transactions set out above have been and will be entered into in the ordinary and usual course of business on normal commercial terms or better which are fair and reasonable and in the interests of our Company and our Shareholders as a whole.

SOLE SPONSOR’S CONFIRMATION

Based on the documentation and data provided by our Company and participation in due diligence and discussions with us, the Sole Sponsor believes that the aforesaid non-exempt continuing connected transactions have been and will be entered into in the ordinary and usual course of business on normal commercial terms or better which are fair and reasonable and in the interests of our Company and our Shareholders as a whole.

DIRECTORS AND SENIOR MANAGEMENT

BOARD OF DIRECTORS

Our Board comprises seven Directors, including two executive Directors, two non-executive Directors and three independent non-executive Directors. Our Board is responsible and has general powers for the management and conduct of our business. The table below sets out certain information in respect of the members of our Board.

Name	Age	Position/ title in our Company	Time of joining our Group	Date of appointment as Director	Major duties and responsibilities
Lu Jian (呂建)	43	Executive Director, Chairman and chief executive officer	5 May 2011	5 February 2018	Overall management of the Group
LIANG Junhua (梁俊華)	33	Executive Director and chief financial officer	1 February 2018	5 February 2018	Overall strategic planning and business direction and overall management of the Group's financial operations
SU Shaoping (蘇少萍)	66	Non-executive Director	5 February 2018	5 February 2018	Providing professional opinion and judgment to our Board
TSUI Wing Tak (徐穎德)	38	Non-executive Director	19 February 2019	19 February 2019	Providing professional opinion and judgment to our Board
ZHUANG Wensheng (莊文勝)	52	Independent non-executive Director	21 February 2020	21 February 2020	Supervising and providing independent judgment to our Board
ZHAO Junfeng (趙俊峰)	48	Independent non-executive Director	21 February 2020	21 February 2020	Supervising and providing independent judgment to our Board
SONG Yi (宋屹)	37	Independent non-executive Director	21 February 2020	21 February 2020	Supervising and providing independent judgment to our Board

DIRECTORS AND SENIOR MANAGEMENT

Senior Management

The members of our senior management are responsible for the day-to-day management of our business. The table below sets out certain information in respect of the senior management of our Group.

Name	Age	Current position/ title in our Group	Time of joining our Group	Date of appointment for the current position	Major duties and responsibilities
ZHAO Xinlin (趙新林)	35	Senior vice-president	July 2015	July 2015	Operation of interactive entertainment department and conventional business development
XIA Wenlong (夏文龍) (Spouse of Rong Hongmei)	43	Vice-president	November 2010	November 2010	Distribution channel management, corporate compliance and procurement
RONG Hongmei (榮紅梅) (Spouse of Xia Wenlong)	44	Human resources director and administration supervisor	November 2010	November 2010	Administration and human resources management

EXECUTIVE DIRECTORS

Mr. LU Jian (呂建), aged 43, is our Chairman, chief executive officer and executive Director responsible for the overall management of our Group. He was appointed as a Director on 5 February 2018 and was re-designated as an executive Director, chief executive officer and Chairman of our Company on 21 February 2020. Mr. Lu has served as operation director of Family Doctor responsible for operation of Family Doctor's business since 5 May 2011. Mr. Lu was awarded a Bachelor of Computer Systems and Automation from Hubei University of Technology (湖北工業大學) in June 2000 and a Master of Business Administration from China Europe International Business School (中歐國際工商學院) in August 2016.

Prior to joining our Group, Mr. Lu worked as regional manager of South China of Sina Mobile (新浪無線), a internet services company, from February 2004 to April 2006 responsible for the management of the South China mobile internet business.

From November 2006 to December 2009, he served as vice-sales director of 深圳市華動飛天網絡技術開發有限公司 (Shenzhen Huadong Feitian Network Development Co., Ltd*), a mobile media company, and was responsible for sales in the PRC.

DIRECTORS AND SENIOR MANAGEMENT

Mr. LIANG Junhua (梁俊華), aged 33, is our chief financial officer and executive Director responsible for our Group's overall strategic planning and business direction. He was appointed as a Director on 5 February 2018 and was re-designated as an executive Director on 21 February 2020. Mr. Liang has served as chief financial officer of our Group and was responsible for overall management of our Group's financial operations since 1 February 2018.

Prior to joining our Group, Mr. Liang served as manager of 國信證券 (Guoxin Securities Company Limited*), a company principally engaged in investment banking, from 2011 to 2012. From March 2013 to December 2017, he worked as assistant president for Glory Medical Co., Ltd. (深圳市尚榮醫療股份有限公司), a company principally engaged in the design and construction of medical facilities and the manufacture and distribution of medical supplies listed on the Shenzhen Stock Exchange (stock code: 2551), responsible for business strategies, financial budget, review of financial statements. He served as financial director of Convida Healthcare and System Inc., a fellow subsidiary of Glory Medical Co., Ltd. (深圳市尚榮醫療股份有限公司) principally engaged in the manufacture, research and development of medical equipment, from June 2014 to December 2017 responsible for financial management and planning.

NON-EXECUTIVE DIRECTORS

Ms. SU Shaoping (蘇少萍), aged 66, is our non-executive Director responsible for providing professional opinion and judgment to our Board. She was appointed as a Director on 5 February 2018 and was re-designated as a non-executive Director on 21 February 2020. Ms. Su was awarded a Bachelor of Administrative Management from South China Normal University (華南師範大學) in July 1990, a Master of Administrative Management from South China University of Technology (華南理工大學) in July 1999 and a Master of Business Administration from Asia International Open University (Macau) (亞洲澳門國際公開大學) in September 2000.

Prior to joining our Group on 5 February 2018, Ms. Su was an engineer at 華工大無線電研究所 (South China University of Technology Radio Research Institute*) responsible for radio and automatic control research from December 1976 to October 1985. She served as vice-secretary of 華工大電子資訊學院 (South China University of Technology School of Electronic Information*) and 華工大電子物理學院 (South China University of Technology School of Physics*) from October 1985 to October 2001 and from November 2001 to May 2005, respectively, responsible for the management of the respective universities. She also served as secretary of 華工醫院 (South China University of Technology Hospital*) from May 2005 to January 2009 responsible for the management of the hospital. She also served as education department manager of 華南理工大學繼續教育學院 (South China University of Technology School of Continuing Education*) from March 2009 to June 2018 responsible for education department management.

DIRECTORS AND SENIOR MANAGEMENT

Mr. TSUI Wing Tak (徐穎德), aged 38, is our non-executive Director responsible for providing professional opinion and judgment to our Board and is the board representative of the pre-IPO investors of the Pre-IPO Investment. He was appointed as a Director on 19 February 2019 and was re-designated as a non-executive Director on 21 February 2020. Mr. Tsui was awarded a Bachelor of Business Administration in accounting from Hong Kong University of Science and Technology (香港科技大學) in November 2004. He was admitted as a certified public accountant and a certified public accountant (practising) of the Hong Kong Institute of Certified Public Accountants in January 2009 and January 2012, respectively.

Since March 2016, Mr. Tsui has served as an executive director of Tree Holdings Limited, a company listed on the Stock Exchange (stock code: 8395) principally engaged in the sale and distribution of furniture and home accessories, responsible for the overall management of the company. From January 2017 to April 2018, Mr. Tsui served as a non-executive director of CCT Land Holdings Limited, a company listed on the Stock Exchange (stock code: 261) principally engaged in the manufacturing and sale of telecom, electronic and child products and property development, responsible for providing professional opinion and judgment to the company.

Prior to joining our Group in 19 February 2019, Mr. Tsui served as manager of Deloitte Touche Tohmatsu from September 2004 to January 2012 and was responsible for auditing. Since June 2012, he has served as director of Accounting Development Foundation Limited, a charity accounting fund, and is responsible for its overall management. Since February 2012, he has served as chief executive officer of AE Majoris Advisory Company Limited, a company principally engaged in the provision of corporate advisory services, responsible for the overall management of the company. From June 2013 to July 2015, he served as chairman of the internal control committee of PPS International (Holdings) Limited, a company listed on the Stock Exchange (stock code: 8201) principally engaged in environmental and cleaning business in Hong Kong, responsible for internal controls. Mr. Tsui also served as chairman of the internal control committee and company secretary of Noble House (China) Holdings Limited (now known as Zhonghua Gas Holdings Limited), a company listed on the Stock Exchange (stock code: 8246) principally engaged in new energy development business, research and development on new energy technologies and construction engineering, the operation of restaurants and sale of processed food and seafood, and property investment in the PRC, responsible for internal controls and company secretarial affairs, from December 2011 to August 2014 and from July 2013 to August 2014, respectively. Since August 2017, Mr. Tsui has served as the company secretary of Ching Lee Holdings Limited, an investment holding company listed on the Stock Exchange (stock code: 3728), responsible for company secretarial affairs. In November 2016, the embassy of the Republic of the Uganda in Beijing appointed Mr. Tsui as Honorary Trade, Tourism and Investment Consultant/Adviser on China (Hong Kong and Macau SAR).

DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. ZHUANG Wensheng (莊文勝), aged 52, is our independent non-executive Director responsible for supervising and providing independent judgment to our Board. He joined our Group on 21 February 2020 when he was appointed as an independent non-executive Director. He was awarded a Bachelor of Mechanics from Hangzhou Dianzi University (杭州電子科技大學) in July 1990.

Mr. Zhuang worked or assumed offices (as the case may be) in various companies or entities including the following:

Period of services	Name of entity	Principal business activities	Major office and responsibilities
February 2006 – July 2006 and July 2007 – February 2015	Harvest Fund Management (嘉實基金)	Asset management	General manager of Guangdong branch, responsible for marketing
Since July 2015	廣東華山會投資管理 有限公司 (Guangdong Huashanhui Investment Management Co., Ltd.*)	Business services	Executive director and general manager, responsible for company strategy and execution
Since December 2015	廣東華山薈投資控股有限公 司(Guangdong Huashanhui Investment Holdings Co., Ltd.*)	Training and financial marketing services	Executive director and general manager, responsible for company strategy and execution
Since March 2016	廣東鼎泰匯一投資有限公 司(Guangdong Dingtai Huiyi Investment Co., Ltd.*)	Business services	Executive director and general manager, responsible for management of the company

Mr. ZHAO Junfeng (趙俊峰), aged 48, is our independent non-executive Director responsible for supervising and providing independent judgment to our Board. He joined our Group on 21 February 2020 when he was appointed as an independent non-executive Director. He was awarded a Bachelor of Accounting from Nankai University (南開大學) in July 1994. Mr. Zhao has held an independent director qualification certificate from the CSRC since December 2015 and a fund qualification certificate from the Asset Management Association of China since April 2016.

DIRECTORS AND SENIOR MANAGEMENT

Apart from the accounting and financial expertise from his educational and professional background, Mr. Zhao has the appropriate related financial management expertise for the purpose of Rule 3.10(2) of the Listing Rules through his experience working as financial officer or manager in various different companies as listed below:

Period of services	Name of entity	Principal business activities	Major office and responsibilities
July 1994 – April 1997	香港溢達集團有限公司 (Hong Kong Esquel Group Limited*)	Textile processing	Accountant responsible for finance services
April 1997 – March 1998	Shenzhen Sundan Chain Store Co., Ltd. (深圳順電 連鎖股份有限公司) (NEEQ Stock Code: 831321)	Commercial retail	Financial manager, responsible for management of finance department
January 1999 – March 2000	深圳好威實業發展有限公 司(Shenzhen Haowei Industrial Development Co., Ltd.*)	Agricultural development	Financial manager, responsible for management of finance department
April 2002 – April 2005	Shenzhen State Microelectronics Co., Ltd.(深圳市國微電子有限 公司) (Shenzhen Stock Exchange Stock Code: 002049)	Integrated circuit design	Secretary to the board of directors, responsible for overall strategic planning and business direction
Since September 2004	深圳市融創投資顧問有限公 司(Shenzhen Sunac Investment Consultancy Co., Ltd.*)	Venture capital	General manager responsible for company strategy and execution

DIRECTORS AND SENIOR MANAGEMENT

Period of services	Name of entity	Principal business activities	Major office and responsibilities
January 2013 – September 2017	廣東達安項目管理股份有限公司 (Guangdong Daan Project Management Co., Ltd.) (Shenzhen Stock Exchange Stock Code: 300635)	Construction project management	Independent director, member of audit committee and strategic committee, and chairman of remuneration and nomination committee, responsible for, among others, reviewing of financial reports, formulation of internal control policies, appraising finance and accounts department personnel, strategize long term development plan, recommending to the board of directors on major corporate financing activities and major capital and investment operations

Through his working experience, Mr. Zhao has experience with accounting and related financial management expertise, including experience in internal controls, in preparing and auditing comparable financial statements, and reviewing and analysing audited financial statements, in particular from his time as an accountant for 香港溢達集團有限公司 (Hong Kong Esquel Group Limited*) and as financial manager of the finance department of each of Shenzhen Sundan Chain Store Co., Ltd., a NEEQ listed company, and 深圳好威實業發展有限公司 (Shenzhen Haowei Industrial Development Co., Ltd.*), respectively, as secretary to the board of directors of Shenzhen State Microelectronics Co., Ltd., a company listed on the Shenzhen Stock Exchange (stock code: 002049), as general manager of 深圳市融創投資顧問有限公司 (Shenzhen Sunac Investment Consultancy Co., Ltd.*) responsible for company strategy and execution, as the abovementioned roles with 廣東達安項目管理股份有限公司 (Guangdong Daan Project Management Co., Ltd.). Mr. Zhao has also gained the related financial management expertise by being involved in his roles with 廣東達安項目管理股份有限公司 (Guangdong Daan Project Management Co., Ltd.), which involved in, finance meetings, periodic financial reviews, annual financial audits and reporting / working closely in the preparation of financial statements, valuation analysis, participation in pricing and negotiation of transaction terms and preparation of financial documents.

DIRECTORS AND SENIOR MANAGEMENT

Ms. SONG Yi (宋屹), aged 37, is our independent non-executive Director responsible for supervising and providing independent judgment to our Board. She joined our Group on 21 February 2020 when she was appointed as an independent non-executive Director. She was awarded a Bachelor of Finance from University of Salford in January 2005 and a Master of Business Administration from China Europe International Business School (中歐國際工商學院) in August 2016.

Ms. Song also worked or assumed offices (as the case may be) in various companies or entities including the following:

Period of services	Name of entity	Principal business activities	Major office and responsibilities
October 2005 – October 2007	KPMG	Audit tax advisory	Auditor, responsible for company audit
December 2007 – May 2011	鷹牌控股有限公司 (Eagle Brand Holdings Company Limited*)	Manufacture and sale of construction materials	Finance manager, chief financial officer and secretary of the board of directors, responsible for financial management
May 2011 – February 2013	廣東集成創業投資有限公司 (Guangdong Integrated Venture Capital Company Limited*)	Equity investment	Vice president, responsible for overall management of the company
February 2013 – January 2016	安徽廣印堂中藥股份有限公司 (Anhui Guang Yin Tang Chinese Medicine Company Limited*)	Manufacture and sale of Chinese medicine	Deputy general manager and secretary of the board of directors, responsible for corporate finance and listing of company
Since November 2015	深圳前海正道啟迪資產管理有限公司 (Shenzhen Qianhai Zhengdao Qidi Asset Management Company Limited*)	Investment advisory	General manager, responsible for overall management of the company

DIRECTORS AND SENIOR MANAGEMENT

Period of services	Name of entity	Principal business activities	Major office and responsibilities
March 2017 – November 2018	Maple Elite Clearing Limited	Equity Investment	Vice president, responsible for overall management of the company
Since November 2018	Samtak Investment Holdings Limited	Investment consulting	Vice president, responsible for overall management of the company

FURTHER INFORMATION OF OUR DIRECTORS

Save as disclosed above in this section, each of our Directors: (i) did not hold any other positions in our Company or other members of our Group as at the Latest Practicable Date; (ii) had no other relationship with any Directors, senior management or substantial shareholders as at the Latest Practicable Date; (iii) did not hold any other directorships in any public companies in Hong Kong and overseas in the three years immediately preceding the date of this prospectus; and (iv) is not interested in any business apart from our Company's business, which competes or is likely to compete, either directly or indirectly, with our Company's business.

As at the Latest Practicable Date, save as disclosed in the section headed “Statutory and General Information — c. Further Information about Directors and Substantial Shareholders — 1. Directors — (d) Interests and short positions of Directors in the Shares, underlying Shares or debentures of our Company and our associated corporations” in Appendix IV to this prospectus, each of our Directors did not have any interest in our Shares within the meaning of Part XV of the SFO.

Save as disclosed herein, to the best of the knowledge, information and belief of our Directors having made all reasonable enquiries, there was no other matter with respect to the appointment of our Directors that needed to be brought to the attention of our Shareholders and there was no information relating to our Directors that was required to be disclosed pursuant to Rules 13.51(2)(h) to (v) of the Listing Rules as at the Latest Practicable Date.

SENIOR MANAGEMENT

Mr. ZHAO Xinlin (趙新林), aged 35, is the senior vice-president of our Group responsible for operation of interactive entertainment department and conventional business development. He joined our Group in July 2015 as the senior vice-president of Family Doctor. He was awarded a Bachelor of Information Management and Information System from Xiangtan University (湘潭大學) in June 2006.

DIRECTORS AND SENIOR MANAGEMENT

Prior to joining our Group, Mr. Zhao served as promotion and coordination and network technology supervisor of 廣州藝揚文化傳播有限公司 (Guangzhou Yiyang Media Co., Ltd.*), a company principally engaged in the distribution of audio and video products, from April 2006 to July 2008 responsible for general marketing and providing internet technical support. He also served as senior vice-president of 廣州市耕源文化傳播有限公司 (Guangzhou Gengyuan Media Co., Ltd.*), an internet content provider company principally engaged in providing mobile value-added services, from August 2008 to July 2015, and was responsible for management and maintenance of business platform system and business development.

Mr. XIA Wenlong (夏文龍), aged 43, is the vice-president of our Group responsible for distribution channel management, corporate compliance and procurement. He joined our Group in November 2010 as vice-president. He was awarded a Bachelor of Chinese Literature from Xiaogan College (孝感學院) (now known as Hubei Engineering University (湖北工程學院)) in January 2007.

Prior to joining our Group, Mr. Xia served as principal of 孝感市孝南區祝站學區 (Xiaogan Provincial Zhuzhan School*) from September 2000 to August 2010 and was responsible for general management of the school.

Mr. Xia is the spouse of Ms. Rong Hongmei, one of our senior management.

Ms. RONG Hongmei (榮紅梅), aged 44, is the human resources director and administrative supervisor of our Group responsible for administration and human resources management. She joined our Group in November 2010 as human resources director.

Prior to joining our Group, Ms. Rong served as deputy human resources manager and administrative officer of 廣州短訊神州網絡技術有限公司 (Guangzhou SMS Shenzhou Network Technology Company Limited*), a company principally engaged in provision of mobile messaging services, from January 2008 to December 2008 responsible for administration and human resources management. She served as assistant to the general manager of 北京中訊愛樂科技有限公司 (Beijing Zhongxin Aile Technology Company Limited*), a company engaged in telecommunications and music business, from January 2009 to February 2011 responsible for team management and management of support projects.

Ms. Rong is the spouse of Mr. Xia Wenlong, one of our senior management.

COMPANY SECRETARY

Mr. TSUI Wing Tak (徐穎德) was appointed as our company secretary on 22 February 2019 and is responsible for the secretarial affairs of our Company.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Tsui is the sole shareholder and director of AE Majoris Corporate Services Company Limited, a company secretarial services provider which has been engaged by us for company secretarial services. AE Majoris Corporate Services Company Limited will be a connected person of our Company upon Listing and the provision of company secretarial services pursuant to the corporate secretarial support service agreement dated 22 February 2019 entered into between the Company and AE Majoris Corporate Services Company Limited will constitute continuing connected transactions for our Company upon Listing. Please see the section headed “Connected Transactions — Exempt Continuing Connected Transaction” of this prospectus for details.

Please see the section headed “Directors and Senior Management — Non-executive Directors” of this prospectus for the biography of Mr. Tsui.

BOARD COMMITTEES

Our Board delegates certain responsibilities to various committees. In accordance with the Corporate Governance Code set out in Appendix 14 to the Listing Rules, our Company has formed three Board committees, named as the Audit Committee, the Nomination Committee and the Remuneration Committee, respectively.

Audit Committee

We have established the Audit Committee with written terms of reference pursuant to Rule 3.22 of the Listing Rules and paragraph C3 of the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The Audit Committee consists of three members, including Mr. Zhao Junfeng, Mr. Zhuang Wensheng and Ms. Song Yi. Mr. Zhao Junfeng currently serves as the chairman of the Audit Committee.

The duties of our Audit Committee include, without limitation, (a) making recommendations to our Board on the appointment, re-appointment and removal of the external auditor, approving the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal; (b) monitoring the integrity of our financial statements, our accounts, our annual report and our interim report, and reviewing significant financial reporting judgments contained therein; and (c) reviewing our financial control, internal control and risk management systems.

Nomination Committee

We have established the Nomination Committee with written terms of reference pursuant to paragraph A5 of the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The Nomination Committee consists of three members, including Mr. Lu, Mr. Zhao Junfeng, Mr. Zhuang Wensheng. Mr. Lu currently serves as the chairman of the Nomination Committee.

DIRECTORS AND SENIOR MANAGEMENT

The duties of our Nomination Committee include, without limitation, (a) reviewing the structure, size and composition (including the skills, knowledge and experience) of our Board at least annually and making recommendations on any proposed changes to our Board to complement our corporate strategy; (b) identifying individuals suitably qualified to become members of our Board and selecting or making recommendations to our Board on the selection of individuals nominated for directorships; (c) assessing the independence of our independent non-executive Directors; and (d) making recommendations to our Board on the appointment or re-appointment of our Directors and succession planning for our Directors, in particular the chairman and the chief executive officer.

Remuneration Committee

We have established the Remuneration Committee with written terms of reference pursuant to Rule 3.26 of the Listing Rules and paragraph B1 of the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The Remuneration Committee consists of three members, including Mr. Zhao Junfeng, Mr. Zhuang Wensheng and Ms. Song Yi. Mr. Zhuang Wensheng currently serves as the chairman of the Remuneration Committee.

The duties of our Remuneration Committee, under the principle that no Director should be involved in deciding his own remuneration, include, without limitation, (a) making recommendations to our Board on our policy and structure for the remuneration of all of our Directors and senior management and on the establishment of a formal and transparent procedure for developing remuneration policies; (b) making recommendations to our Board on the remuneration packages of our executive Directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their offices or appointments; and (c) reviewing and approving our management's remuneration proposals with reference to our Board's corporate goals and objectives.

COMPENSATION OF DIRECTORS

For each of FY2016, FY2017, FY2018 and 9M2019, the aggregate amount of Directors' fees, salaries, allowances and benefits in kind and pension scheme contributions was approximately RMB109,000, RMB23,000, RMB60,000 and RMB47,000, respectively.

The aggregate amount of salaries, bonuses, allowances and benefits in kind and pension scheme contributions, paid by us to the five highest paid individuals of our Group (excluding our Directors and/or chief executive(s) of the Company) for each of FY2016, FY2017, FY2018 and 9M2019 was approximately RMB1.7 million, RMB2.0 million, RMB1.5 million and RMB912,000, respectively.

During the Track Record Period, no remuneration was paid by us to, or receivable by, our Directors or senior management or the five highest paid individuals as inducement to join or upon joining our Company, or as compensation for loss of office as a director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group. In addition, none of our Directors waived any emolument.

DIRECTORS AND SENIOR MANAGEMENT

Under the arrangements currently in force, we estimate the aggregate amount of remuneration payable by us to, and allowances and benefits in kind receivable by, our Directors for the year ended 31 December 2020 to be approximately RMB1.9 million (excluding discretionary bonus).

Except as disclosed above, no other payments were paid, or were payable, by us to our Directors or senior management, or the five highest paid individuals during the Track Record Period.

COMPLIANCE ADVISER

We have appointed Lego Corporate Finance Limited as our compliance advisor (the “**Compliance Advisor**”) pursuant to Rule 3A.19 of the Listing Rules. Our Compliance Advisor will provide us with guidance and advice as to compliance with the Listing Rules and applicable Hong Kong laws. Pursuant to Rule 3A.23 of the Listing Rules, our Compliance Advisor will advise our Company in certain circumstances including:

- (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 document or where the business activities, development or results of our Group deviate from any forecast, estimate or other information in this document; and
- (d) where the Stock Exchange makes an inquiry to our 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 our Compliance Advisor 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.

CORPORATE GOVERNANCE CODE

We consider that having Mr. Lu acting as both our Chairman and our chief executive officer will provide a strong and consistent leadership to us and allow for more effective planning and management for our Group. Pursuant to A.2.1 of Appendix 14 to the Listing Rules, the roles of chairman and chief executive should be separate and should not be performed by the same individual. However, in view of Mr. Lu’s extensive experience in the industry, personal profile and critical role in our Group and its historical development, we consider that it is beneficial to the business prospects of our Group that Mr. Lu continues to act as both our Chairman and our chief executive officer after the Listing.

DIRECTORS AND SENIOR MANAGEMENT

Except as disclosed above, our Directors consider that, as of the Latest Practicable Date, our Company has fully complied with the applicable code provisions as set forth in the Corporate Governance Code as contained in Appendix 14 to the Listing Rules.

Board Diversity Policy

In order to enhance the effectiveness of our Board and to maintain the high standard of corporate governance, we have adopted a board diversity policy which sets out the objective and approach to achieve and maintain diversity of our Board. Pursuant to our board diversity policy, we seek to achieve board diversity through the consideration of various factors such as gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. Upon Listing, our nomination committee is responsible for reviewing our board diversity policy from time to time to ensure its continued effectiveness. Our implementation of the board diversity policy will be disclosed in our annual reports.

Our Directors have a mix of knowledge and skills, including overall management and strategic development, human resources, financial management and corporate governance. They obtained degrees in various majors including computer systems, business administration, mechanics, accounting, accountancy and finance. We have three independent non-executive Directors with different industry backgrounds, representing one-third of the members of our Board. Furthermore, our Board has a range of age from the ages of 36 to 65. Taking into account our current business model and specific needs, as well as the different background of our Directors, the composition of our Board satisfies our board diversity policy.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

OUR CONTROLLING SHAREHOLDERS

Immediately following completion of the Global Offering and Capitalization Issue (without taking into account any Share which may be issued upon exercise of the Over-allotment Option), Mr. Liang, Mr. Lu, Ms. He (as Mr. Lu's spouse) and Ms. Su, through their respective intermediate holding companies, will together control more than 30% of the issued share capital of our Company, and control more than 30% of the equity interest in Guangzhou Jiu Zun, which holds 93% of the equity interest in Family Doctor. Mr. Liang, Mr. Lu, Ms. He (as Mr. Lu's spouse) and Ms. Su and their respective intermediate holding companies (including JLCY SAGA, LJHJH SAGA and WW SAGA) are our group of Controlling Shareholders. Please see the section headed "History, Reorganization and Group Structure — Our Controlling Shareholders" of this prospectus for the basis for identifying our Controlling Shareholders.

OTHER BUSINESS INTERESTS OF OUR CONTROLLING SHAREHOLDER

Mr. Lu, an executive Director and one of our Controlling Shareholders, used to hold 10% equity interest in 深圳暖心遊戲科技有限公司 (Shenzhen Nuanxin Game Technology Co., Ltd.*) ("**Shenzhen Nuanxin**"), which is not a member of our Group.

Shenzhen Nuanxin is a company established under the laws of the PRC with limited liability on 15 June 2017. It was owned as to 10% by Mr. Lu and as to 59%, 26% and 5% by three other Independent Third Parties. The principal business of Shenzhen Nuanxin is the development and operation of mobile games.

Mr. Lu has not been involved in the operation and the day-to-day management of Shenzhen Nuanxin. The current directors and management of Shenzhen Nuanxin are all Independent Third Parties, and none of our Directors or members of our senior management has been involved in the operation and the day-to-day management of Shenzhen Nuanxin. Mr. Lu does not have any management control over Shenzhen Nuanxin, nor is he involved in its daily management and operation.

Pursuant to an equity transfer agreement dated 14 February 2019 entered into between Mr. Lu and the Independent Third Party holding 59% equity interest in Shenzhen Nuanxin, Mr. Lu agreed to sell and such Independent Third Party agreed to purchase the 10% equity interest in Shenzhen Nuanxin held by Mr. Lu. Upon the completion of the registration of the aforesaid transfer with the relevant PRC authority on 10 April 2019, Mr. Lu ceased to hold equity interest in Shenzhen Nuanxin as at the Latest Practicable Date.

Save as disclosed above, each of our Controlling Shareholders, as of the Latest Practicable Date, was not interested in any business which competes, or is likely to compete, directly or indirectly, with the business of our Group or would otherwise require disclosure under Rule 8.10 of the Listing Rules.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS AND THEIR RESPECTIVE ASSOCIATES

In the opinion of our Directors, our Group is capable of carrying out our businesses independently of, and does not place undue reliance on, our Controlling Shareholders, their respective associates or any other parties particularly with respect to the following factors:

Financial independence

We are financially independent of our Controlling Shareholders and their respective close associates. We have sufficient capital to operate our business independently, and have adequate resources to support our daily operations. In addition, our Group has internal control and accounting systems, accounting department and independent treasury functions and makes financial decisions according to our own business needs.

We do not have any amount due to shareholders as at the Latest Practicable Date while our amount due from shareholders as at 9M2019 amounted to RMB13.6 million. All the amounts due from/to shareholders are expected to be settled before Listing. Our Directors confirm that our Group does not intend to pledge, guarantee or provide financial assistance to or obtain any borrowings from any of our Controlling Shareholders.

Our Directors are satisfied that we are capable of carrying on our business independently of our Controlling Shareholders and their respective close associates (other than our Group) after the Listing. Based on the foregoing, our Directors are of the view that our Group is financially independent from our Controlling Shareholders and their respective close associates.

Operational independence

Our Group has been operating our business independent of that of our Controlling Shareholders and/or his/her respective close associates. We make business decisions independently and hold all relevant licences necessary to carry on our business and have sufficient capital, equipment and employees to operate our business independently. Our Group has established its own organizational structure made up of individual departments, each with specific areas of responsibilities. We have independent access to suppliers, distributors and customers. Our Group has established a set of internal controls to facilitate the effective operation of its business. As at the Latest Practicable Date, there were no significant business transactions between us and any of our Controlling Shareholders and/or his/her respective close associates.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Management independence

Our Board comprises 2 executive Directors, namely Mr. Lu and Mr. Liang, 2 non-executive Directors, namely Ms. Su and Mr. Tsui, and 3 independent non-executive Directors, namely, Mr. Zhao Junfeng, Mr. Zhuang Wensheng and Ms. Song Yi. Mr. Lu is a director of LJHJH SAGA and Mr. Liang is a director of JLCY SAGA. Save as disclosed above, none of our Directors or senior management serves any executive or management role in our Controlling Shareholders or any of their respective associates.

Our Group has established three Board committees, including: (i) the Audit Committee; (ii) the Nomination Committee; and (iii) the Remuneration Committee. The majority of the members of these committees are independent non-executive directors, who monitor the operations of our Group. Further, we believe that the independent non-executive Directors will be able to exercise their independent judgment and will be able to provide impartial opinions in the decision-making process of our Board to protect the interests of our Shareholders.

Each of our Directors is aware of his fiduciary duties as a Director which require, among other things, that he acts for the benefit and in the best interests of our Company and does not allow any conflict between his duties as a Director and his personal interest. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective associates, the interested Director(s) shall abstain from voting at the relevant Board meetings of our Company in respect of such transactions and shall not be counted in the quorum. In particular, Mr. Lu and Mr. Liang will not attend any Board meetings of our Company in respect of those matters or transactions relating to LJHJH SAGA and JLCY SAGA respectively, or which may otherwise give rise to potential conflicts of interest and would not be counted as quorum in the relevant meetings. Furthermore, Mr. Lu and Mr. Liang and their respective associates will not attend, or be counted as quorum of, any meeting of our Shareholders for consideration and approval of matters which may give rise to potential conflicts of interest so far as required by the Listing Rules or other applicable laws and regulations. In addition, our Group has an independent senior management team, none of whom has any managerial role or beneficial interest in our Controlling Shareholders or any of their respective associates, to carry out the business decisions of our Group independently.

Three of the members of our Board are independent non-executive Directors who are either well-educated or having extensive experience in different areas or professionals and they have been appointed pursuant to the requirements under the Listing Rules to ensure that the decisions of our Board are made only after due consideration of independent and impartial opinions. Our Directors believe that the presence of Directors from different backgrounds provides a balance of views and opinions.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Furthermore, our Board's main function includes the approval of the overall business plans and strategies of our Group, monitoring the implementation of these policies and strategies and the management of our Company. Our Board acts collectively by majority decisions in accordance with the Articles and applicable laws, and no single Director is supposed to have any decision-making power unless otherwise authorized by our Board.

Having considered the above factors, our Directors are satisfied that they are able to perform their roles in our Company independently, and our Directors are of the view that our Group is capable of managing its business independently from our Controlling Shareholders and their respective associates after the Listing. In addition, the business of our Group has been operated under substantially the same management throughout the Track Record Period and up to the Latest Practicable Date.

CORPORATE GOVERNANCE MEASURES

Our Directors believe that there are adequate corporate governance measures in place to manage conflicts of interest after the Listing. In particular, we will implement the following measures:

- as part of our preparation for the Global Offering, we have amended our Articles of Association to comply with the Listing Rules. In particular, our Articles of Association provides that, unless otherwise provided, a Director shall not vote on any resolution approving any contract or arrangement or any other proposal in which such Director or any of his/her close associates has a material interest nor shall such Director be counted in the quorum present at the meeting;
- a Director with material interests shall make full disclosure in respect of matters that conflict or potentially conflict with our interest and absent himself/herself from the Board meetings on matters in which such Director or any of his/her close associates have a material interest, unless the attendance or participation of such Director at such meeting of the Board is specifically requested by a majority of the independent non-executive Directors;
- if a substantial shareholder or a Director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter should be dealt with in a physical Board meeting rather than a written resolution. Independent non-executive Directors who have no material interest in the transaction should be present at that Board meeting;

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

- we are committed that our Board should include a balanced composition of executive and non-executive Directors (including independent non-executive Directors). We have appointed three independent non-executive Directors and we believe our independent non-executive Directors possess sufficient experience and they are free of any business and/or other relationship which could interfere in any material manner with the exercise of their independent judgment and will be able to provide an impartial and external opinion to protect the interests of our public Shareholders. Please see the sections headed “Directors and Senior Management — Independent Non-executive Directors” of this prospectus for further details of our independent non-executive Directors;
- in the event that our independent non-executive Directors are requested to review any conflicts of interests circumstances between our Group on the one hand and our Controlling Shareholders and/or our Directors on the other, our Controlling Shareholders and/or our Directors shall provide our independent non-executive Directors with all necessary information and our Company shall disclose the decisions of our independent non-executive Directors (including why business opportunities referred to it by our Controlling Shareholders were not taken up) either through its annual report or by way of announcements; and
- we have appointed Lego Corporate Finance Limited as our compliance advisor, which will provide advice and guidance to us in respect of compliance with the applicable laws and the Listing Rules, including various requirements relating to directors’ duties and corporate governance.

SHARE CAPITAL

SHARE CAPITAL

Assuming that the Global Offering becomes unconditional, the authorized share capital of our Company is as follows:

Authorized share capital:

	<i>HK\$</i>
2,000,000,000 Shares of HK\$0.01 each	20,000,000
	<u>20,000,000</u>

Assuming the Over-allotment Option is not exercised, the issued share capital of our Company immediately following completion of the full conversion of the Pre-IPO Convertible Bonds, the Capitalization Issue and the Global Offering will be as follows:

	<i>HK\$</i>	Approximate percentage of issued share capital
<i>Issued and to be issued, fully paid or credited as fully paid, upon completion of the full conversion of the Pre-IPO Convertible Bonds, the Capitalization Issue and the Global Offering:</i>		<i>(%)</i>
106,990 Shares in issue as at the date of this prospectus	1,069.90	0.02
419,893,010 Shares to be issued under the Capitalization Issue	4,198,930.10	76.90
126,000,000 Shares to be issued under the Global Offering	1,260,000.00	23.08
<u>546,000,000</u> Shares in total	<u>5,460,000.00</u>	<u>100.00</u>

SHARE CAPITAL

Assuming the Over-allotment Option is exercised in full, the issued share capital of our Company immediately following completion of the full conversion of the Pre-IPO Convertible Bonds, the Capitalization Issue and the Global Offering will be as follows:

		<i>HK\$</i>	Approximate percentage of issued share capital <i>(%)</i>
<i>Issued and to be issued, fully paid or credited as fully paid, upon completion of the full conversion of the Pre-IPO Convertible Bonds, the Capitalization Issue and the Global Offering:</i>			
106,990	Shares in issue as at the date of this prospectus	1,069.90	0.02
419,893,010	Shares to be issued under the Capitalization Issue	4,198,930.10	74.33
144,900,000	Shares to be issued under the Global Offering and the Over-allotment Option	1,449,000.00	25.65
<u>564,900,000</u>	Shares in total	<u>5,649,000.00</u>	<u>100.00</u>

ASSUMPTIONS

The above table assumes that the Capitalization Issue and the Global Offering become unconditional.

The above table takes no account of (a) Shares which may be allotted and issued upon the exercise of any option to be granted under the Share Option Scheme; or (b) any Shares which may be allotted and issued or repurchased by our Company pursuant to the general mandate given to our Directors to allot and issue or repurchase Shares as described below.

RANKING

The Offer Shares and the Shares that may be issued pursuant to exercise of the Over-allotment Option and any option to be granted under the Share Option Scheme will rank pari passu in all respects with all other existing Shares in issue as described in this prospectus and, in particular, will be entitled to all dividends and other distributions to be declared, paid or made on the Shares after the date of this prospectus save for entitlements under the Capitalization Issue.

SHARE CAPITAL

SHARE OPTION SCHEME

We conditionally adopted the Share Option Scheme on 21 February 2020. Under the Share Option Scheme, the eligible participants of the scheme, including directors, full-time employees of and advisers and consultants to our Company, its subsidiaries, or our Consolidated Affiliated Entities, may be granted options which entitle them to subscribe for Shares representing initially not more than 10% of the Shares in issue on the Listing Date. Please see the section headed “Statutory and General Information — D. Other Information — 1. Share Option Scheme” in Appendix IV to this prospectus for details.

GENERAL MANDATE

Our Directors have been granted a general unconditional mandate to allot, issue and deal with, otherwise than by way of rights issue, scrip dividend schemes or similar arrangements providing for allotment of Shares in lieu of the whole or in part of any dividend in accordance with the Articles, or pursuant to the exercise of any options to be granted under the Share Option Scheme, or under the Capitalization Issue or the Global Offering or upon the exercise of the Over-allotment Option, with an aggregate number of Shares not exceeding the sum of (a) 20% of the aggregate number of issued Shares immediately following completion of the Capitalization Issue and the Global Offering (but excluding any Shares which may be allotted and issued upon exercise of the Over-allotment Option or any options to be granted under the Share Option Scheme); and (b) the aggregate number of Shares which may be repurchased by our Company, if any, under the Repurchase Mandate.

This general mandate will expire:

- (i) at the conclusion of our Company’s next annual general meeting; or
- (ii) upon the expiry of the period within which our Company is required by any applicable law or the Memorandum and Articles of Association to hold its next annual general meeting; or
- (iii) when varied, revoked or renewed by an ordinary resolution of the Shareholders in general meeting;

whichever occurs first.

Please see the paragraph headed “Statutory and General Information — A. Further Information about Our Company — 3. Resolutions in writing of our Shareholders passed on 21 February 2020” in Appendix IV to this prospectus for further details of the general mandate.

SHARE CAPITAL

REPURCHASE MANDATE

Our Directors have been granted a general unconditional mandate to exercise all of the powers of our Company to repurchase Shares with an aggregate number of Shares of not more than 10% of the aggregate number of issued Shares, as enlarged by the Capitalization Issue and the Global Offering (but excluding any Shares which may be allotted and issued upon exercise of the Over-allotment Option or any options to be granted under the Share Option Scheme).

This Repurchase Mandate relates only to repurchases made on the Stock Exchange or on any other stock exchange on which our Shares are listed (and which is recognized by the SFC and the Stock Exchange for this purpose), and which are made in accordance with all applicable laws and the requirements of the Listing Rules. Please see the section headed “Statutory and General Information — A. Further Information about our Company — 6. Securities repurchase mandate” in Appendix IV to this prospectus for further information required by the Stock Exchange to be included in this prospectus regarding the repurchase of Shares.

This Repurchase Mandate will expire:

- (i) at the conclusion of our Company’s next annual general meeting; or
- (ii) upon the expiry of the period within which our Company is required by any applicable law or the Memorandum and Articles of Association to hold its next annual general meeting; or
- (iii) when varied, revoked or renewed by an ordinary resolution of our Shareholders in general meeting;

whichever occurs first.

Please see the section headed “Statutory and General Information — A. Further Information about Our Company — 3. Resolutions in writing of our Shareholders passed on 21 February 2020 in Appendix IV to this prospectus for further details.

SHARE CAPITAL

CIRCUMSTANCES UNDER WHICH GENERAL MEETINGS AND CLASS MEETINGS ARE REQUIRED

As a matter of the Cayman Islands Companies Law, an exempted company is not required by law to hold any general meetings or class meetings on an annual or regular basis. The holding of a general meeting or class meeting is prescribed for under the articles of association of a company. Accordingly, we will hold general meetings as prescribed for under our Articles, a summary of which is set out in the section headed “Summary of the Constitution of Our Company and the Cayman Islands Company Law” in Appendix III to this prospectus.

Our Company has only one class of shares, namely ordinary shares, each of which ranks *pari passu* with the other shares.

Pursuant to the Cayman Islands Companies Law and the terms of the Memorandum and the Articles of Association, our Company may from time to time by ordinary resolution of Shareholders (i) increase its capital; (ii) consolidate and divide its capital into shares of larger amount; (iii) divide its Shares into several classes; (iv) sub-divide its Shares into shares of smaller amount; and (v) cancel any Shares which have not been taken. In addition, our Company may, subject to the provisions of the Cayman Islands Companies Law, reduce its share capital or any capital redemption reserve or other undistributable reserve in any manner by special resolution. Please see the section headed “Summary of the Constitution of our Company and the Cayman Islands Company Law — 2. Articles of Association — (a) Shares — (iii) Alteration of capital” in Appendix III to this prospectus for further details.

Pursuant to the Cayman Islands Companies Law and the terms of the Memorandum and Articles of Association, all or any of the special rights attached to our Shares or any class of our Shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified 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 our shares of that class. Please see the section headed “Summary of the Constitution of our Company and the Cayman Islands Company Law — 2. Articles of Association — (a) Shares — (ii) Variation of rights of existing shares or classes of shares” in Appendix III to this prospectus for further details.

SUBSTANTIAL SHAREHOLDERS

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following completion of the full conversion of the Pre-IPO Convertible Bonds, Capitalization Issue and the Global Offering (without taking into account any Shares which may be allotted and issued upon exercise of the Over-allotment Option and the options to be granted under the Share Option Scheme), the following persons will have an interest or short position in our Shares or the underlying Shares which would fall to be disclosed to our Company 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:

Name of Shareholder	Capacity/ Nature of Interest	As at the date of this prospectus		Immediately following completion of the full conversion of the Pre-IPO Convertible Bonds, the Capitalization Issue and the Global Offering	
		Number of Shares or securities held ⁽¹⁾	Approximate percentage of shareholding	Number of Shares or securities held ⁽¹⁾	Approximate percentage of shareholding
JLCY SAGA ⁽²⁾	Beneficial owner	86,022	86.02%	337,688,008 (L)	61.85%
Mr. Liang ⁽²⁾	Interest in a controlled corporation/ interest held jointly with other persons	86,022	86.02%	337,688,008 (L)	61.85%
LJHJH SAGA ⁽³⁾	Beneficial owner	86,022	86.02%	337,688,008 (L)	61.85%
Mr. Lu ⁽³⁾	Interest in a controlled corporation/ interest of spouse / interest held jointly with other persons	86,022	86.02%	337,688,008 (L)	61.85%
Ms. He ⁽³⁾	Interest in a controlled corporation/ interest of spouse / interest held jointly with other persons	86,022	86.02%	337,688,008 (L)	61.85%
WW SAGA ⁽⁴⁾	Beneficial owner	86,022	86.02%	337,688,008 (L)	61.85%

SUBSTANTIAL SHAREHOLDERS

Name of Shareholder	Capacity/ Nature of Interest	As at the date of this prospectus		Immediately following completion of the full conversion of the Pre-IPO Convertible Bonds, the Capitalization Issue and the Global Offering	
		Number of Shares or securities held ⁽¹⁾	Approximate percentage of shareholding	Number of Shares or securities held ⁽¹⁾	Approximate percentage of shareholding
Ms. Su ⁽⁴⁾	Interest in a controlled corporation/ interest held jointly with other persons	86,022	86.02%	337,688,008 (L)	61.85%
DW SAGA ⁽⁵⁾	Beneficial owner	7,527 (L)	7.53%	29,547,995 (L)	5.41%
Mr. Xu ⁽⁵⁾	Interest in a controlled corporation	7,527 (L)	7.53%	29,547,995 (L)	5.41%

Notes:

- (1) The letter “L” denotes a person’s long position in our Shares.
- (2) Mr. Liang is the sole shareholder of JLCY SAGA which holds 126,632,022 Shares (representing approximately 23.19% of the shareholding of our Company) upon the completion of the full conversion of the Pre-IPO Convertible Bonds, the Capitalization Issue and the Global Offering. By virtue of the SFO, Mr. Liang is deemed to be interested in the Shares in which JLCY SAGA is interested. Pursuant to the Second Acting-In-Concert Confirmation, Mr. Liang, Mr. Lu and Ms. Su are parties acting in concert. As such, each of Mr. Liang, Mr. Lu and Ms. Su is deemed to be interested in the Shares held by the others under the SFO.
- (3) Mr. Lu and Ms. He owns 99.90% and 0.10% shareholding in LJHJH SAGA respectively. LJHJH SAGA holds 105,527,993 Shares (representing approximately 19.33% of the shareholding of our Company) upon the completion of the full conversion of the Pre-IPO Convertible Bonds, the Capitalization Issue and the Global Offering. Mr. Lu is the husband of Ms. He. By virtue of the SFO, each of Mr. Lu and Ms. He is deemed to be interested in the Shares in which LJHJH SAGA is interested. Pursuant to the Second Acting-In-Concert Confirmation, Mr. Liang, Mr. Lu and Ms. Su are parties acting in concert. As such, each of Mr. Liang, Mr. Lu and Ms. Su is deemed to be interested in the Shares held by the others under the SFO.
- (4) Ms. Su is the sole shareholder of WW SAGA which holds 105,527,993 Shares (representing approximately 19.33% of the shareholding of our Company) upon the completion of the full conversion of the Pre-IPO Convertible Bonds, the Capitalization Issue and the Global Offering. By virtue of the SFO, Ms. Su is deemed to be interested in the Shares in which WW SAGA is interested. Pursuant to the Second Acting-In-Concert Confirmation, Mr. Liang, Mr. Lu and Ms. Su are parties acting in concert. As such, each of Mr. Liang, Mr. Lu and Ms. Su is deemed to be interested in the Shares held by the others under the SFO.
- (5) Mr. Xu is the sole shareholder of DW SAGA which holds 29,547,995 Shares (representing approximately 5.41% of the shareholding of our Company) upon the completion of the full conversion of the Pre-IPO Convertible Bonds, the Capitalization Issue and the Global Offering. By virtue of the SFO, Mr. Xu is deemed to be interested in the Shares in which DW SAGA is interested.

SUBSTANTIAL SHAREHOLDERS

Save as disclosed in this prospectus, our Directors are not aware of any person who will, immediately following completion of the full conversion of the Pre-IPO Convertible Bonds, the Capitalization Issue and the Global Offering (without taking into account any Shares which may be allotted and issued upon exercise of the Over-allotment Option and the options to be granted under the Share Option Scheme), have an interest or a short position in our Shares or the underlying Shares which would fall to be disclosed to our Company 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 any other member of our Group. Our Directors are not aware of any arrangement which may result in a change of control of our Company at a subsequent date.

FINANCIAL INFORMATION

You should read this section in conjunction with our combined financial information, including the notes thereto, as set out in Appendix I to this prospectus. The combined financial information has been prepared in accordance with HKFRSs.

The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, our actual results may differ significantly from those projected in the forward-looking statements. Factors that might cause future results to differ significantly from those projected in the forward-looking statements include those discussed in the section headed “Risk Factors” of this prospectus as well as those discussed elsewhere in this prospectus.

OVERVIEW

We are a digital entertainment content provider in the PRC with a diversified portfolio of contents including mobile games, e-magazines and other digital media content such as comics and music. We commenced our digital media content distribution business in 2011, and expanded the portfolio product offering to mobile games in 2014 where we developed and/or operated a wide range of casual mobile games. We also commenced development and operation of boutique mobile games since FY2017 and operation of first multi-player mobile game since November 2018. During the Track Record Period, majority of our revenue was derived from casual and boutique mobile games.

During the Track Record Period, our revenue was mainly derived from mobile game development and operation business and digital media content distribution business. For each of the FY2016, FY2017 and FY2018, our total revenue was RMB139.8 million, RMB170.7 million and RMB143.0 million, respectively, while our profit for the year were RMB40.6 million, RMB50.6 million and RMB51.7 million, respectively. Our revenue increased by 41.9% from RMB120.4 million in 9M2018 to RMB170.8 million in 9M2019; while our profit for the period decreased from RMB45.4 million in 9M2018 to RMB30.9 million in 9M2019, primarily due to the Listing expenses of RMB8.8 million incurred in 9M2019, which is non-recurring in nature.

BASIS OF PRESENTATION

The financial information has been prepared by our Directors based on accounting policies which conform with HKFRSs issued by the HKICPA, on the basis of presentation as set out in notes 2.1 and 2.2 in section II of the Appendix I to this prospectus.

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations have been and will continue to be affected by a number of factors, including those set out below:

General economic conditions and the overall environment in the game industry

During the Track Record Period, most of our revenue were derived from our mobile game development and operation business in the PRC that is susceptible to the spending of our players which depends on the overall economic conditions and their disposable income. According to the Frost & Sullivan Report, the mobile games industry in the PRC has boomed since 2012 and developed at a rapid pace since then. As we expect player demand for our mobile game to continue to grow, our success depends on our ability to realize such growth into our revenue, and thus, our result of operations. Nevertheless, our result of operations is also suspect to other general conditions such as the regulatory environment, the use of smartphones and players' willingness to spend may affect the game industry and our results of operations. For instance, there was series of institutional restructuring of the PRC government in relation to the gaming industry in March 2018, which led to suspension of game registration since March 2018 and decrease in the number of games approved by the PRC government in 2018. Thus, our revenue from our mobile game development and operation business decreased in FY2018 compared to that of FY2017. For further details on the relevant regulations, please see the section headed "Regulatory Overview — Regulations Related to Mobile Games and Internet Cultural Products (Including Digital Media Content)" of this prospectus.

Ability to develop and to obtain licensing rights of popular games and their continued popularity

During the Track Record Period, we derived our revenue primarily from sale of virtual items in our mobile games. The sale of virtual items in our mobile games depends on, among others, the popularity of games. Certain games may still generate revenue in the second or third year since its launch. Hence, our success and results of operations is susceptible to the development or obtaining of licensing rights of popular games and their sustained popularity. In order to enhance popularity of our games, our management identifies the right products with its expertise and experience and a data-driven approach in accommodating ever-changing user preferences. In addition to strong game development, we strive to provide favorable gameplay experience including payment process in order to attract more players and increase the sales of virtual items. In January 2019, we had launched 20 licensed mobile games and commenced operation of our first licensed multi-player mobile game. In June and July 2019, two additional multi-player mobile games have been launched. As at the Latest Practicable Date, we plan to roll out four new games in the first and second quarter of 2020.

FINANCIAL INFORMATION

Business relationships with our distribution channel providers and settlement agents

We utilize our distribution channels provided by our distribution channel providers to reach (i) the potential players by providing our games on the third-party Apps in the PRC; and (ii) the potential readers by providing our licensed digital media content on distribution platforms. We cooperate with our settlement agents which are responsible for payment collections from our players or readers. Please see the section headed “Business — Our Suppliers — Our distribution channel providers” and “Business — Our Settlement Agents” of this prospectus for details. Our ability to expand our distribution channels and settlement agents may affect the accessibility of our games. In addition, the expenses paid to our distribution channel providers are generally charged at certain portion of our revenue which accounted for most of our cost of sales. Our revenue, cost of sales, gross profit and gross profit margin during the Track Record Period were affected by the changes in the portion charged by our distribution channel providers and settlement agents. Any changes to our business relationship with our distribution channel providers or settlement agents may affect the portion charged by them. Thus, our results of operation is susceptible to the business relationships with our distribution channel providers and settlement agents.

Relationship with third-party content providers

We select digital media content from third party content providers according to market trend and reader preference. The third parties grant non-exclusive rights of the digital media content to us. Those content are developed or licensed by third parties and its copyright is owned by them. During FY2016, FY2017, FY2018 and 9M2019, we had 10, 18, 17 and 16 e-magazine content providers. We also sourced comics and music from individual content providers, which are all original works created by individual comic writers and musicians. We maintain stable business relationships with our third-party content providers. We generally pay our third-party content providers licence fees as stipulated in respective agreements. Thus, any changes to the relationship with our third-party content providers may affect the availability of contents and price of content to be obtained which may in turn affect our results of operations.

FINANCIAL INFORMATION

Ability to monetize our player base

During the Track Record Period, 83.4%, 88.5%, 63.4% and 85.9% of our total revenue was generated from mobile game development and operation, being the sales of virtual items, which allow our players to enhance their gameplay experience through extending playtime, customizing game settings, improving in-game performance and accelerating game progress. Our results of operations depend on our ability to monetize our player base, i.e., to increase both the MPU and ARPPU. The following table sets forth the number of our MPU and average or range of ARPPU of all our mobile games and our top 5 revenue-generating games during the Track Record Period:

Our mobile games	FY2016	FY2017	FY2018	9M2019
Number of paying players	20.7 million	22.8 million	14.9 million	9.4 million
Average MPUs	1.7 million	1.9 million	1.2 million	1.0 million
Average ARPPU	RMB11.02	RMB13.20	RMB15.41	RMB23.16
Top 5 revenue-generating games (single-player game)	FY2016	FY2017	FY2018	9M2019
Number of paying players	8.8 million	12.5 million	7.3 million	6.1 million
Average MPUs	730,021	1,166,418	605,618	683,020
	RMB4.36 to	RMB10.48 to	RMB10.54 to	RMB17.82 to
Range of ARPPU	RMB21.67	RMB21.03	RMB18.39	RMB18.97

During 9M2019, we also commenced the operation of our multi-player games, which mainly contributed a total revenue of RMB46.4 million with which was attributable to 霸業永恆 (Eternal Champion*) with ARPPU and MPUs of RMB368.35 and 12,793 in 9M2019, respectively.

To enhance game monetization, we will continue to stimulate players' interest and drive in-game purchases and the number of rounds of games they play by improving the quality of our games, introducing new game features and virtual items, launching additional in-game promotions and other activities.

Competition with other market players

According to the Frost & Sullivan Report, competition in the China mobile games market has become fiercer in recent years. Although the industry had a late start compared to the global mobile games market, the opportunities from the mobile games market in China had encouraged more market entrants to develop mobile games domestically. We face competition in every aspect of our business, and particularly from other companies that seek to provide platform services for digital media content creation, consumption and distribution. In addition, certain digital content providers or physical magazine publishers may continue to offer pirated content for free or at lower prices. As a result, our result of operations may be affected by the competition we face. For further details on our competition, please see the

FINANCIAL INFORMATION

section headed “Risk Factors — We face competition in every aspect of our businesses. If we fail to compete effectively, we may lose users or third party content provider, which could materially and adversely affect our business, financial condition and results of operations” of this prospectus.

SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ESTIMATES AND JUDGMENT

We have identified certain accounting policies that are significant to the preparation of our Group’s financial statements. Some of our accounting policies involve subjective assumptions and estimates, as well as complex judgments relating to accounting items. In each case, the determination of these items requires management judgments based on information and financial data that may change in future periods. Our assumptions and estimates are based on historical experience and other factors that are considered to be relevant. Actual results may differ under different assumptions and conditions. When reviewing our financial statements, you should consider: (i) our selection of critical accounting policies; (ii) the judgments and other uncertainties affecting the application of such policies; and (iii) the sensitivity of reported results to changes in conditions and assumptions. Our significant accounting policies, estimates and judgments, which are important for an understanding of our financial condition and results of operations, are summarized below and the full text is set out in notes 2 and/or 3 of the Accountants’ Reports contained in Appendix I to this prospectus for details. The determination of these items requires management judgments based on information and financial data that may change in the future periods, and as a result, actual results could differ from those estimates.

Revenue recognition

During the Track Record Period, we recognized revenue from our mobile game development and operation business and digital media content distribution business.

(a) Mobile game

Mobile game development and operation

Our Group’s mobile games including casual and boutique games as well as the multi-player games, are played on individual mobile devices and allow players to download and play for free. Players can purchase in-game items and premium features, commonly known as virtual items, to enhance their gameplay experience. Our Group distributes mobile games through cooperation with various third-party game distribution platforms including mobile operators, application stores, mobile game portals and derives our revenue from sales of in-game virtual items. Revenue is recognized upon purchase of in-game items and premium features by players.

FINANCIAL INFORMATION

Information services

Information services revenue is recognized either ratably over the displaying period of the advertisement or upon a particular action by players, i.e., click, download or activate.

(b) Digital media content distribution

Our revenue from digital media content distribution represents subscription of digital media which is recognized at the time of purchase by the customer as we do not have further obligation after providing the content to the customer upon purchase and all other criteria for revenue recognition is met.

Please see note 2.4 of the Accountants' Report in Appendix I to this prospectus for further details regarding our accounting policy relating to revenue recognition.

Financial instruments

We recognize financial assets and financial liabilities when a group entity becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. Please see note 2.4 of the Accountants' Report in Appendix I to this prospectus for further details regarding our accounting policy relating to financial instruments.

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 the reporting period, taking into consideration interpretations and practices prevailing in the countries/jurisdictions in which our Group operates. Please see note 2.4 of the Accountants' Report in Appendix I to this prospectus for further details regarding our accounting policy relating to income tax.

IMPACT OF ADOPTION OF NEW AND AMENDMENTS TO CERTAIN ACCOUNTING POLICIES

The HKICPA issued new accounting standards including HKFRS 9 "Financial Instruments" and HKFRS 15 "Revenue from contracts with customers", which have been effective since 1 January 2018, while we have consistently applied HKFRS 15 throughout the Track Record Period; and HKFRS 16 "Leases", which has been effective for annual periods beginning on or after 1 January 2019. Please see note 2.2 and 2.3 of the Accountants' Report in Appendix I to this prospectus for details of application and impact of the accounting policies to our Group.

FINANCIAL INFORMATION

Adoption of HKFRS 9, HKFRS 15 and HKFRS 16

HKFRS 9 *Financial Instruments* (“**HKFRS 9**”) replaces HKAS 39 *Financial Instruments: Recognition and Measurement* (“**HKAS 39**”) for annual periods beginning on or after 1 January 2018. HKFRS 9 has been adopted by our Group since 1 January 2018. The adoption of HKFRS 9 has had no significant impact on the classification and measurement of our Group’s financial instruments. The impacts arising from the adoption of HKFRS 9 relate to the impairment requirements. HKFRS 9 requires an impairment on debt instruments recorded at amortized cost that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. Our Group has applied the simplified approach and recorded lifetime expected credit losses of trade receivables both on a specific and collective basis according to management’s assessment of the recoverability of an individual receivable. Additional loss allowance of trade receivables has been adjusted for RMB1,332,000 upon the adoption of HKFRS 9.

HKFRS 15 *Revenue from Contracts with Customers* (“**HKFRS 15**”) and its amendments replace HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. Our Group has early adopted HKFRS 15 and applied consistently since the beginning of, and throughout, the Track Record Period in the preparation of our historical financial information.

HKFRS 16 *Leases* (“**HKFRS 16**”) replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases - Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease* for annual periods beginning on or after 1 January 2019. Our Group has early adopted HKFRS 16 and applied consistently since the beginning of, and throughout, the Track Record Period in the preparation of our historical financial information.

Our Group has assessed the effects of adoption of HKFRS 15 and HKFRS 16 on our financial statements and considered that the adoption did not have a significant impact on our financial positions and results of operations.

FINANCIAL INFORMATION

RESULTS OF OPERATIONS

The following table summarizes the combined statements of profit or loss from the financial statements during the Track Record Period, details of which are set out in the Accountants' Reports in Appendix I to this prospectus.

	Nine months ended 30 September				
	FY2016	FY2017	FY2018	9M2018	9M2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> (unaudited)	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	139,755	170,654	142,979	120,427	170,792
Cost of sales	(74,656)	(93,898)	(80,660)	(69,404)	(108,004)
Gross profit	65,099	76,756	62,319	51,023	62,788
Other income and gains . .	4,153	11,999	2,050	987	1,467
Selling and distribution expenses	(949)	(1,796)	(1,686)	(1,230)	(642)
Administrative expenses . .	(7,180)	(10,325)	(9,864)	(7,390)	(5,689)
Research and development expenses	(8,161)	(8,334)	(6,270)	(4,743)	(4,799)
Reversal of impairment/(impairment) of trade receivables	(3,807)	(2,090)	17,273	16,283	(990)
Other expenses	(300)	(4,955)	(4,550)	(3,276)	(9,510)
Finance cost	—	—	(569)	(327)	(772)
Profit before tax	48,855	61,255	58,703	51,327	41,853
Income tax expense	(8,276)	(10,617)	(7,036)	(5,891)	(10,925)
Profit for the year/period . .	40,579	50,638	51,667	45,436	30,928

DESCRIPTION OF SELECTED ITEMS IN STATEMENTS OF COMPREHENSIVE INCOME

Revenue

Our revenue represents (i) sales of in-game virtual items to players from our mobile game development and operation business; (ii) mobile game information services business which was commenced in FY2018; and (iii) distribution of digital media content to our subscribers from digital media content distribution business. During the Track Record Period, all of our revenue were generated and derived in the PRC.

FINANCIAL INFORMATION

The following table sets forth, for the periods indicated, the breakdown of our revenue generated from different business lines:

	FY2016		FY2017		FY2018		9M2018		9M2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(unaudited)									
Mobile game										
– Mobile game development and operation	116,548	83.4	151,068	88.5	90,611	63.4	78,808	65.4	146,754	85.9
– Information services	–	–	–	–	918	0.6	–	–	2,088	1.2
Digital media content distribution	23,207	16.6	19,586	11.5	51,450	36.0	41,619	34.6	21,950	12.9
	<u>139,755</u>	<u>100.0</u>	<u>170,654</u>	<u>100.0</u>	<u>142,979</u>	<u>100.0</u>	<u>120,427</u>	<u>100.0</u>	<u>170,792</u>	<u>100.0</u>

We have a diversified content portfolio comprising mobile games, e-magazines and other digital media content. We also commenced development and operation of boutique mobile games since FY2017. We generated revenue, from our mobile game business and digital media content distribution business of RMB139.8 million, RMB170.7 million, RMB143.0 million and RMB170.8 million for FY2016, FY2017, FY2018 and 9M2019, respectively. Our revenue from mobile game development and operation business accounted for over 80.0% of our total revenue in FY2016 and FY2017, and decreased to 63.4% of our total revenue in FY2018 following our response to the Temporary Suspension.

Due to the series of institutional restructuring of the PRC government, SAPPRFT is reformed and became a direct agency of the State Council, and the approval of new game registration in PRC has been suspended from March to December 2018. Despite the fierce competition for licensing rights of licensed games as a result of the Temporary Suspension, and having taken into account the surging prices of the licensed games and our resources allocation, we obtained licensing rights of 28 mobile games and increased the proportion of revenue contributed by licensed games during FY2018, in order to combat the negative effect brought by the Temporary Suspension.

Our complementary business lines, namely mobile game business (including development and operation of mobile games) and digital media content distribution business, have proven to maintain our financial strength and business robust over the Track Record Period. Our Directors believe that, with a goal to maximize our revenue, our business lines have achieved synergy, as the personnel from different business lines can share their experience, know-how and expertise to enhance the efficiency and effectiveness of our business operations as a whole.

FINANCIAL INFORMATION

Our revenue increased from RMB120.4 million in 9M2018 to RMB170.8 million in 9M2019 primarily due to the increase in revenue from our mobile game business. After the resumption of approval of newly developed games by SAPPRFT in December 2018, we successfully obtained the approval of game registration of our new game. During 9M2019, we launched 38 new mobile games and commenced operation of our three multi-player mobile games, leading to an increase of revenue of our mobile game development and operation business as compared to 9M2018. Nevertheless, our increase in total revenue was partially offset by the decrease in our digital media content distribution from RMB41.6 million in 9M2018 to RMB22.0 million in 9M2019.

Mobile game development and operation business

All of our games are free to download and play, as we give our players limited virtual weapons and items to play for basic gameplay experience in some of our games. Players may choose to enhance their gameplay experience by purchasing our virtual items. During the Track Record Period, we generated all of our revenue from mobile game development and operation business by sales of our virtual items in (i) self-developed games; and (ii) licensed games. The following table sets forth our revenue breakdown by type of game as the period indicated:

	FY2016		FY2017		FY2018		9M2018		9M2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	(RMB'000)	%
							(unaudited)			
<i>Self-developed games</i>	94,388	81.0	64,138	42.5	34,055	37.6	28,798	36.5	37,300	25.4
<i>Licensed games</i>	22,160	19.0	86,930	57.5	56,556	62.4	50,010	63.5	109,454	74.6
Total	116,548	100.0	151,068	100.0	90,611	100.0	78,808	100.0	146,754	100.0

Our self-developed games are either programmed by us or we obtained the perpetual licence of the source code from third-party developers or individual creators. Under our self-developed games, we sometimes outsourced certain portion of our works to third-party game developers in order to strengthen our development capability by leveraging on the experience and expertise of the third-party game developers. Our licensed games represented games which we obtained licenses from third-party developers to operate their games, taking into account various factors such as the players' preference, market trend, safety and the technology levels, player-friendliness, reputation and the comments about the game, image and popularity of the characters. During the Track Record Period, the revenue derived from the mobile game development and operation business were generated from 496, 222, 91 and 79 games for FY2016, FY2017, FY2018 and 9M2019, respectively.

FINANCIAL INFORMATION

In FY2016, we generated 81.0% of the total revenue from mobile game development and operation business from our self-developed games. In FY2017, our revenue contributed by self-developed games decreased to 42.5% of our revenue from mobile game development and operation while revenue contribution from licensed games increased to 57.5% as compared to 19.0% of our revenue from mobile game development and operation in FY2016, mainly attributable to increase in revenue of certain licensed games such as 中國象棋 (Chinese Chess*) and 馬上鬥地主 (Battling the Landlords at once*).

The change in revenue contribution to our mobile game development and operations business from self-developed and licensed games are generally led by our business strategy. At the early stage of our game development in 2015, we developed and/or operated over 700 mobile games which cover different genres with an aim to capture a large pool of potential players and to test the popularity of different types of games. With our accumulated experience in the development and operation of the mobile games, we adopted a strategic approach in selecting the type of games to develop and operate. In FY2017 and FY2018, having considered our business strategy and the composition in the portfolio of our mobile games and their profitability, we reallocated our resources in a more efficient manner by way of trimming down the number of self-developed games operated by us by (i) focusing on those mobile games which are more popular; and (ii) allocating more resources and time on the development of boutique games, which feature a better quality, more sophisticated and attractive storyline and sometimes supported by popular entertainment properties. As it usually takes longer time to develop and launch a boutique game, we would also promote more licensed games during the development period in order to maintain a stable growth of revenue as well as boosting our reputation and market awareness. During FY2018, such trend continue to sustain with our strategy to develop boutique games which require vast amount of resources. Also, as a result of the Temporary Suspension, we have proactively responded to the change and switched our focus to placing more emphasis on distribution of the licensed games. Thus, our revenue contribution from licensed games further increased to 62.4% to our total revenue from mobile game development and operation business in FY2018. Such strategy continued to flourish in 9M2019, and our revenue contribution from licensed games further increased to 74.6% of our total revenue from mobile game development and operation business.

(i) Revenue contribution by top five revenue-generating mobile games

The following table sets forth revenue generated from our top five revenue-generating games through the sale of virtual items, in absolute amounts and as percentages of our revenue from mobile game development and operation business and their respective average MPUs and ARPPU for each of the periods indicated.

FINANCIAL INFORMATION

FY2016

Name	Type	Genre	Revenue	% to total revenue from development and operation of mobile games	Average MPUs	ARPPU
			contribution			
			<i>RMB'000</i>	<i>%</i>		<i>RMB</i>
機智的小鳥(Witty Bird*) · · · · ·	Self-developed	Endless run	18,955	16.3	332,593	8.90
中國象棋(Chinese Chess*) · · · · ·	Licensed	Strategy and mind challenge	11,144	9.6	179,550	8.52
天天格鬥－精武之魂 (The Soul for Fighting*) · · · · ·	Self-developed	Adventure	6,526	5.6	80,269	12.96
鬥地主(Battling the Landlords*) · · · · ·	Licensed	Strategy and mind challenge	4,160	3.6	29,141	21.67
萌將春秋OL (The Warlords in the Spring and Autumn Times*) · · · · ·	Self-developed	Adventure	3,415	2.9	108,466	4.36
Total			44,200	38.0	730,019	

FY2017

Name	Type	Genre	Revenue	% to total revenue from development and operation of mobile games	Average MPUs	ARPPU
			contribution			
			<i>RMB'000</i>	<i>%</i>		<i>RMB</i>
機智的小鳥(Witty Bird*) · · · · ·	Self-developed	Endless run	35,226	23.3	478,771	10.48
中國象棋(Chinese Chess*) · · · · ·	Licensed	Strategy and mind challenge	23,336	15.4	229,546	14.51
馬上鬥地主(Battling the Landlords at once*) · · · · ·	Licensed	Strategy and mind challenge	19,865	13.1	152,936	18.77
新東方多納寓言故事 (New Oriental Donut Fable Stories*) · · · · ·	Licensed	Education	11,916	7.9	247,104	16.14
魔法酷跑 (Magic Run*) · · · · ·	Licensed	Endless run	7,565	5.1	58,060	21.03
Total			97,908	64.8	1,166,417	

FINANCIAL INFORMATION

FY2018

Name	Type	Genre	Revenue contribution	% to total revenue from mobile games	Average MPUs	ARPPU
			<i>RMB'000</i>	<i>%</i>		<i>RMB</i>
新東方多納寓言故事 (New Oriental Donut Fable Stories*)	Licensed	Education	12,769	14.1	158,978	16.17
達人麻將 (Mahjong Expert*)	Licensed	Strategy and mind challenge	10,993	12.1	105,318	18.39
機智的小鳥 (Witty Bird*)	Self-developed	Endless run	9,466	10.5	149,656	10.54
中國象棋 (Chinese Chess*)	Licensed	Strategy and mind challenge	9,202	10.2	109,926	14.47
95火辣機 (Hot Flight “95”*)	Self-developed	Adventure	7,334	8.0	81,740	14.56
Total			49,764	54.9	605,618	

9M2019

Name	Type	Genre	Revenue contribution	% to total revenue from mobile games	Average MPUs	ARPPU
			<i>RMB'000</i>	<i>%</i>		<i>RMB</i>
霸業永恆 (Eternal Champion*) ^(Note 1)	Licensed	Adventure	39,492	26.9	12,793	368.35
3D滑雪狂飆 (3D Ultra Speed Skiing*)	Licensed	Endless run	33,394	22.8	367,165	18.97
神奇萌泡 (Magical Babbles*)	Self-developed	Elimination	17,477	11.9	116,951	18.53
豬豬俠之光明守衛者 (GG Bond-Guardian of The Light*)	Licensed	Adventure	9,326	6.4	103,130	18.62
天天酷飛 (Fly Off*)	Self-developed	Adventure	8,369	5.6	55,346	18.75
Total			108,058	73.6	655,385	

Note¹: 霸業永恆(Eternal Champion*), our first multi-player mobile game, which was launched in January 2019, with an average MAU and DAU of 124,575 and 10,580 during 9M2019, respectively.

FINANCIAL INFORMATION

During the Track Record Period, our top five games contributed for 38.0%, 64.8%, 54.9% and 73.6% of our total revenue from development and operation of mobile games for FY2016, FY2017, FY2018 and 9M2019, respectively. The increase of our top five games contribution to our total revenue from development and operation of mobile games in FY2017, compared to that of FY2016, was mainly due to our focus on developing more boutique games which resulted in reduction in the number of games launched and revenue generated in FY2017. Our revenue contribution from our top five games from development and operation of mobile games then slightly decreased to 54.9% of our total revenue in FY2018, mainly due to the decrease in revenue generated from 機智的小鳥 (Witty Bird*) as it has been distributed for several years leading to a decrease in MPU.

Revenue from 機智的小鳥 (Witty Bird*) increased from RMB19.0 million in FY2016 to RMB35.2 million in FY2017, representing an increased contribution of 7.0% to our total revenue from development and operation of games in respective year due to the nature of game and our ability to develop different level and chapters of the game to maintain players' interest. After being distributed for several years, the MPU of 機智的小鳥 (Witty Bird*) gradually dropped and thus, the revenue generated from it dropped to RMB9.5 million and RMB3.0 million in FY2018 and 9M2019, respectively contributing 10.5% and 2.0% to our total revenue from our development and operation of games for the respective year/period.

In 9M2019, we also generated revenue from development and operation of our first multi-player game amounted to RMB39.5 million. The revenue was attributable to the success of our multi-player mobile game 霸業永恆(Eternal Champion*) which was launched during 9M2019. The revenue from it accounted for 26.9% of our total revenue from mobile game development and operation business. The ARPPU of 霸業永恆(Eternal Champion*) was relatively higher at RMB368.35 compared to our other mobile games given higher selling price per in-game purchases. The average MPUs was 12,793 during 9M2019.

(ii) Information services

Leveraged on our experience in game development and operation, since FY2018, our Group cooperated with corporate customers to integrate media content in some of our mobile games we operate. We derived revenue from the provision of in-game airtime when players click on the in-game links in the designated spaces and view the media content posted by such corporate customer.

We commenced such business in FY2018 and the revenue contributed in the same year amounted to RMB0.9 million. Our revenue from information services amounted to nil and RMB2.1 million in 9M2018 and 9M2019, respectively.

FINANCIAL INFORMATION

Digital media content distribution business

Our digital media distribution business represents the distribution of digital media content, which involves procuring media content in various formats from third parties including printed magazines, comics and music and distributing the content through digital means. We derived revenue through readers' subscriptions of our digital media content. Our digital media distribution business involves (i) the conversion of conventional printed magazines into e-magazines and SMS and distribution through the publishing platform; and (ii) supply of the content of the digital distribution of comics and music by third-party content providers. The following table sets out a breakdown of our revenue by type in absolute amount and as percentage of our revenue from digital media content distribution for the periods indicated:

	FY2016		FY2017		FY2018		9M2018		9M2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
E-magazines	16,910	72.9	18,073	92.3	49,314	95.8	39,894	95.9	21,807	99.3
SMS	2,694	11.6	1,021	5.2	1,019	2.0	882	2.1	–	–
Comics and music	3,603	15.5	492	2.5	1,117	2.2	843	2.0	143	0.7
Total	23,207	100.0	19,586	100.0	51,450	100.0	41,619	100.0	21,950	100.0

During the Track Record Period, our e-magazines were mainly available on the publishing platform in the PRC. Our revenue from e-magazines increased from RMB16.9 million in FY2016 to RMB18.1 million in FY2017 and further to RMB49.3 million in FY2018. Such significant increase in FY2018 as compared to FY2017 was mainly attributable to the switch of our focus to intensify our efforts in the distribution of digital media content in response to the Temporary Suspension. Please see the section headed “Business — Our competitive strengths — A synergetic business model empowered by complementary mobile game development and operation and digital media content distribution” of this prospectus for details. However, with the popularity of using smartphone over the years, our revenue from SMS decreased from FY2016 to FY2017 and remained relatively stable for FY2018.

In addition, the increase in revenue from digital media content distribution business in FY2018 as compared to that of FY2017 was also due to the revamp of the user interface of the major distribution platform and thus attracted more traffic from active users which in turn increased subscription of our digital media content.

Our revenue from comics and music, on the other hand, recorded a downward trend from RMB3.6 million in FY2016 to RMB0.5 million in FY2017. Following our strategy of not sourcing new licensing rights from comics and music publishers for distribution as we had utilized more resources in our distribution of e-magazines during FY2017, we did not strive to attract new subscribers of comics and music and our sales from comics and music were from the licensing rights of comics and music which were licensed long time ago. Nevertheless, our revenue from comics and music increased from RMB0.5 million in FY2017 to RMB1.1 million in FY2018 primarily due to the outperformance of a distribution channel provider of comics and music.

FINANCIAL INFORMATION

Our revenue from digital media content distribution business decreased from RMB41.6 million in 9M2018 to RMB22.0 million in 9M2019, mainly due to the decrease in revenue from e-magazines. Such decrease was primarily due to the decrease in subscribers resulting from the temporary halt of services of our major distribution platform for the upgrade of the user interface during 9M2019.

Cost of sales

Most of our cost of sales were service fee paid to our distribution channel providers in relation to our mobile game development and operation and digital media content distribution business. In some occasions, China Mobile Internet and/or its affiliates would invite us to upgrade the daily revenue limit for certain games they have selected for profit maximization. We paid a service fee of nil for nil mobile games, RMB1.4 million for two mobile games, RMB1.0 million for four mobile games and RMB0.2 million for 9 mobile games in FY2016, FY2017, FY2018 and 9M2019, respectively. Our cost of sales also included license fee for (i) obtaining entertainment properties of games; and (ii) obtaining licensing rights of e-magazine content.

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

	FY2016		FY2017		FY2018		9M2018		9M2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
							(unaudited)			
Service fee to distribution channel providers	73,154	98.0	91,907	97.9	77,949	96.6	67,277	97.0	101,804	94.3
Licence fee for obtaining licensing rights of e-magazines	667	0.9	846	0.9	1,187	1.5	711	1.0	254	0.2
Licence fee for obtaining entertainment properties of games	271	0.3	558	0.6	826	1.0	860	1.2	5,737	5.3
	74,092	99.2	93,311	99.4	79,962	99.1	68,848	99.2	107,795	99.8
Add: sales tax and surcharges	564	0.8	587	0.6	698	0.9	556	0.8	209	0.2
Total	74,656	100.0	93,898	100.0	80,660	100.0	69,404	100.0	108,004	100.0

Our service fee to distribution channel providers represent the service fee agreed at a pre-determined ratio to our revenue from different games or media contents distributed. Such cost is our major costs, which accounting for over 90% of our total cost of sales during the Track Record Period.

Our players or readers may purchase virtual items or subscribe our media content (i) through the platforms provided by our distribution channel providers; or (ii) directly at the publishing platform. We settle with our third-party distribution channel providers with the agreed rate on the proceeds received. No service fee will be paid to distribution channel providers if the players or readers subscribed our media content directly at the publishing platform.

FINANCIAL INFORMATION

Licence fees for e-magazines and the entertainment properties of games represented the cost in obtaining such licensing rights from the publishers for us to distribute.

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

	FY2016		FY2017		FY2018		9M2018		9M2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(unaudited)									
Mobile game										
– Mobile game development and operation	66,073	88.5	86,733	92.4	55,798	69.1	48,840	70.4	99,604	92.2
– Information services	–	–	–	–	–	–	–	–	541	0.5
Digital media content distribution	8,019	10.7	6,578	7.0	24,164	30.0	20,008	28.8	7,650	7.1
	74,092	99.2	93,311	99.4	79,962	99.1	68,848	99.2	107,795	99.8
Add: sales tax and surcharges	564	0.8	587	0.6	698	0.9	556	0.8	209	0.2
Total	74,656	100.0	93,898	100.0	80,660	100.0	69,404	100.0	108,004	100.0

During the Track Record Period, majority of our costs of sales pertained to our mobile game development and operation business which was generally in line with the trend of our revenue. Our costs for digital media content distribution business increased significantly in FY2018 as compared to FY2017 and FY2016, mainly due to the increase in costs paid to distribution channel providers as a result of increase in revenue from such business line during the same period and increase in subscription of our media content through our distribution channel providers.

Our costs for mobile game development and operation increased in 9M2019 compared to 9M2018 mainly due to the increase in service fee charged by our distribution channel providers, while the costs for digital media content distribution decreased mainly due to the decrease in costs paid to distribution channel providers as a result of decrease in revenue from such business line during the same period and decrease in subscription of our media content through our distribution channel providers.

In spite of the commencement of our information services in FY2018, we do not have any costs that are directly attributable to our information services business in FY2018 and no costs of sales was recorded from such business for the respective year. We incurred cost of information services of RMB0.5 million in 9M2019.

FINANCIAL INFORMATION

Gross profit and gross profit margin

The following table sets forth a breakdown of gross profit and gross profit margin by business lines for the periods indicated:

	FY2016		FY2017		FY2018		9M2018		9M2019	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(unaudited)									
Mobile game										
– Mobile game development and operation	50,475	43.3	64,335	42.6	34,813	38.4	29,968	38.0	47,150	32.1
– Information services	–	–	–	–	918	100.0	–	–	1,547	74.1
Digital media content distribution	15,188	65.4	13,008	66.4	27,286	53.0	21,611	51.9	14,300	65.1
	65,663	47.0	77,343	45.3	63,017	44.1	51,579	42.8	62,997	36.9
Add: sales tax and surcharges	(564)		(587)		(698)		(556)		(209)	
	<u>65,099</u>	46.6	<u>76,756</u>	45.0	<u>62,319</u>	43.6	<u>51,023</u>	42.4	<u>62,788</u>	36.8

For each of FY2016, FY2017, FY2018 and 9M2019, our gross profit amounted to RMB65.1 million, RMB76.8 million, RMB62.3 million and RMB62.8 million, respectively, while the respective gross profit margin was 46.6%, 45.0%, 43.6% and 36.8% for the respective years/period. Our gross profit margin is susceptible to the difference in the mix of the percentage of the agreed portion of the gross billings received from different distribution channel providers. Also, as our players or readers can either purchase or subscribe through the distribution platforms or publishing platform provided by our distribution channel providers which service fee to them would be incurred; or directly at the publishing platforms which no services fee would be chargeable by the distribution channel providers, our gross profit margin is susceptible to the mix of players or readers purchasing or subscribing through our distribution channel providers or not.

The gross profit margin decreased from 45.0% in FY2017 to 43.6% in FY2018 mainly due to the increase in service fee paid to distribution channel providers for both our mobile game development and operation business and digital media content distribution business. Due to the Temporary Suspension, the number of games we distributed decreased in FY2018. Thus, the games we offered to our distribution channel providers during FY2018 were games which were released for some time (the “**Released Games**”). Compared to newly launched games,

FINANCIAL INFORMATION

Released Games are less likely to attract new players to play, hence the service fee payable to distribution channel providers, which is based on an agreed profit sharing ratio from these games, may also be lower. Such lower service fee payable to our distribution channel providers may deter them to distribute our games. In order to secure and incentivize their distribution of the Released Games, we had to pay higher rate of service fee to our distribution channel providers in FY2018. Consequently, our gross profit margin for our mobile game development and operation business decreased in FY2018. For our digital media content distribution business, our gross profit margin was relatively lower in FY2018 mainly as a result of more readers subscribing our media content through our distribution channel providers instead of subscribing through our publishing platform directly.

Our gross profit margin decreased from 42.4% in 9M2018 to 36.8% in 9M2019 mainly due to the decrease in gross profit margin from our mobile games development and operation from 38.0% in 9M2018 to 32.1% in 9M2019. Such decrease was primarily due to the increase in our service fee charged by the distribution channel providers. Our gross profit from the development and operation of our multi-player games was relatively lower at 18.5% compared to other mobile games mainly attributable to the higher costs relating to distribution channels and a higher licence fees for obtaining the multi-player games, comprising (i) the licence for operating the game; and (ii) the necessary technology support, including a server with a larger capacity. Our Group typically retains 70% for single-player mobile games and 99% for multi-player mobile games from our settlement agents, respectively. Service fees charged by distribution channel providers for multi-player mobile games range between 68% to 75% of the net receipts received by us while service fees by distribution channel providers for single-player mobile games typically range between 20% to 50% of the net receipts received by us.

We do not have costs that are directly attributable to our information services business under our mobile games and therefore, the gross profit margin from such business was 100.0% in FY2018. We only incurred insignificant amount of cost for such business in 9M2019 and gross profit of it was 74.1%.

Other income and gains

Our other income and gains mainly represents government grants, interest income from wealth management products and banks, game licensing income and consultancy services income.

FINANCIAL INFORMATION

The following table sets forth the breakdown of our other income and gains for the periods indicated:

	<u>FY2016</u>	<u>FY2017</u>	<u>FY2018</u>	<u>9M2018</u>	<u>9M2019</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(unaudited)	
Other income					
Interest income	84	1,952	655	269	581
Consultancy services income	—	7,591	—	—	—
Government grants	1,900	1,512	813	413	—
Game licensing income	1,926	944	—	—	—
Others	—	—	582	305	389
	<u>3,910</u>	<u>11,999</u>	<u>2,050</u>	<u>987</u>	<u>970</u>
Gains					
Gains on disposal of the 28 Subsidiaries	—	—	—	—	497
Gain on bargain purchase . .	243	—	—	—	—
Total	<u>4,153</u>	<u>11,999</u>	<u>2,050</u>	<u>987</u>	<u>1,467</u>

Our government grants represented various government grants received by our Consolidated Affiliated Entities which were qualified as High and New Technology Enterprises in the PRC. There were no unfulfilled conditions or contingencies relating to these grants.

In FY2017, we generated consultancy services income of RMB7.6 million which was non-recurring. In FY2017, we were engaged to provide consultancy services to other game developers in the PRC to improve their monetization skills. Under this arrangement, these game developers pay the relevant shared profit to our Group and the distribution channel providers separately, our Group would therefore receive their shared profit on a net basis. Such arrangement with the third-party game developers was ceased in 2018 and no other income from this arrangement was recorded in other year during the Track Record Period.

During the Track Record Period, we licensed certain of mobile games, which were previously launched or operated by us, to third parties. These sales were recognized as our other income as such activity is not in our ordinary course of business. During 9M2019, we disposed of the entire equity interests in the 28 Subsidiaries to Mr. Lu Jian, Mr. Liang Jun Hua and Ms. Su Shao Ping, the shareholders of our Group, for considerations of RMB53.8 million, resulting in gains on disposal of the 28 Subsidiaries of RMB0.5 million. See note 27 of the Accountants' Report contained in Appendix I to this prospectus.

FINANCIAL INFORMATION

Selling and distribution expenses

Selling and distribution expenses primarily comprise business development expenses which mainly included expenses for our business relations and staff costs and welfare.

The following table sets forth a breakdown of our selling and distribution expenses for the periods indicated:

	FY2016		FY2017		FY2018		9M2018		9M2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(unaudited)									
Business development	448	47.2	836	46.5	717	42.5	558	45.4	301	46.9
Staff costs and welfare	359	37.8	898	50.0	799	47.4	476	38.7	330	51.4
Advertising expenses	33	3.5	12	0.7	141	8.4	177	14.4	1	0.1
Others ^(Note)	109	11.5	50	2.8	29	1.7	19	1.5	10	1.6
Total	949	100.0	1,796	100.0	1,686	100.0	1,230	100.0	642	100.0

Note:

Others mainly represented office expenses.

Selling and distribution expenses amounted to RMB0.9 million, RMB1.8 million, RMB1.7 million and RMB0.6 million for FY2016, FY2017, FY2018 and 9M2019, respectively.

Our expenses in relation to business development and staff were the major items of our selling and distribution expenses. Our business development expenses accounting for 47.2%, 46.5%, 42.5% and 46.9% of our total selling and distribution expenses for FY2016, FY2017, FY2018 and 9M2019, respectively. Our staff costs and welfare increased significantly from RMB0.4 million in FY2016 to RMB0.9 million in FY2017 mainly as a result of the increase in number of headcounts and their compensation level in order to sustain the growth of our business. Our staff costs and welfare remained relatively stable at RMB0.8 million in FY2018. Our selling and distribution expenses decreased from RMB1.2 million in 9M2018 to RMB0.6 million in 9M2019 primarily due to the decrease in business development expenses as a result of a decrease in the number of our distribution channel providers.

FINANCIAL INFORMATION

Administrative expenses

Administrative expenses primarily comprise staff costs and welfare, professional fee, rental expenses and management fee, office expenses and others.

The following table sets forth a breakdown of our administrative expenses for the periods indicated:

	FY2016		FY2017		FY2018		9M2018		9M2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(unaudited)									
Staff costs and welfare	3,579	49.8	5,308	51.4	6,090	61.7	4,535	61.4	3,276	57.6
Professional fee	1,970	27.4	3,417	33.1	1,604	16.3	1,238	16.8	1,004	17.6
Rental expenses and management fee	758	10.6	757	7.3	819	8.3	613	8.3	631	11.1
Office expenses	316	4.4	248	2.4	337	3.4	249	3.4	151	2.7
Depreciation	62	0.9	105	1.0	303	3.1	238	3.2	234	4.1
Others ^(Note)	495	6.9	490	4.8	711	7.2	517	6.9	393	6.9
Total	7,180	100.0	10,325	100.0	9,864	100.0	7,390	100.0	5,689	100.0

Note:

Others mainly represented bank charges, recruitment expenses, traveling expenses and sundry expenses.

Administrative expenses amounted to RMB7.2 million, RMB10.3 million, RMB9.9 million and RMB5.7 million for FY2016, FY2017, FY2018 and 9M2019, respectively. Our administrative expenses increased to RMB10.3 million in FY2017 as compared to RMB7.2 million FY2016 was mainly due to the increase of our staff cost and welfare from RMB3.6 million in FY2016 to RMB5.3 million as a result of the increase in headcount and their compensation level. Our administrative expenses remained relatively stable of RMB10.3 million and RMB9.9 million to FY2017 and FY2018, respectively.

Our administrative expenses decreased from RMB7.4 million in 9M2018 to RMB5.7 million in 9M2019 primarily due to the decrease in our staff costs and welfare of RMB1.3 million mainly due to the movement of staff in 9M2019.

FINANCIAL INFORMATION

Research and development expenses

Research and development expenses primarily comprise staff costs and welfare, software and consumables expenses, technology service fee, rental and management fee and others.

The following table sets forth a breakdown of research and development expenses for the periods indicated:

	FY2016		FY2017		FY2018		9M2018		9M2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(unaudited)									
Staff costs and welfare	5,758	70.5	6,054	72.7	4,319	68.9	3,306	69.7	3,156	65.8
Software and consumables expenses	530	6.5	925	11.1	775	12.4	547	11.5	276	5.7
Technology service fee	1,070	13.1	639	7.7	500	8.0	355	7.5	939	19.6
Rental and management fee	411	5.0	444	5.3	484	7.7	363	7.7	393	8.2
Others ^(Note)	392	4.9	272	3.2	192	3.0	172	3.6	35	0.7
Total	8,161	100.0	8,334	100.0	6,270	100.0	4,743	100.0	4,799	100.0

Note:

Others mainly include utilities expenses, testing fee and sundry expenses.

Research and development expenses remained relatively stable at RMB8.2 million and RMB8.3 million for FY2016 and FY2017, respectively. Our research and development expenses decreased to RMB6.3 million for FY2018 primarily attributable to the decrease in staff costs and welfare of RMB1.7 million in FY2018, due to the suspension of new game registration in the PRC as a result of the series of institutional restructuring of the PRC government, we experienced a drop in headcounts in our research and development function as we did not find replacement for certain departed staff.

Reversal of impairment/(impairment) of trade receivables

We provide impairment losses to our trade receivables when we considered such amount is not recoverable or reverse the impairment losses if the amount previously impaired is recovered. Our major settlement agent, China Mobile Internet and/or its affiliates, would deduct marks for our relevant Consolidated Affiliated Entity operating the particular game where there is any deviation from the rules of China Mobile Internet in operation and promotion of games. Please see the paragraph headed “Business — Our Settlement Agents — Penalty policy of China Mobile Internet and its affiliates and our rectification measures” for details. Before the Track Record Period, certain of our Consolidated Affiliated Entities had been penalized to the extent that China Mobile Internet terminated settlement agreement with them. However, China Mobile Internet and/or its affiliates did not settle their payment within the period stipulated in the settlement agreement with our Consolidated Affiliated Entities. Therefore, in accordance with our impairment policy, we had provided impairment for corresponding amounts which we considered not recoverable.

FINANCIAL INFORMATION

Our impairment losses on trade receivables amounted to RMB3.8 million and RMB2.1 million for FY2016 and FY2017, respectively, and reversal of impairment losses on trade receivables amounted to RMB17.3 million for FY2018. In FY2018, China Mobile Internet and/or its affiliates settled certain amounts of the trade receivables to us which impairment provision was previously provided for before the Track Record Period. Thus, we recorded reversal of impairment losses on trade receivables of RMB17.3 million in FY2018.

We recorded reversal of impairment losses on trade receivables of RMB16.3 million and impairment losses on trade receivables of RMB1.0 million in 9M2018 and 9M2019, respectively.

Other expenses

Other expenses mainly represented Listing expenses. Other expenses amounted to RMB0.3 million, RMB5.0 million, RMB4.6 million and RMB9.5 million for FY2016, FY2017, FY2018 and 9M2019, respectively.

Finance costs

Finance costs in FY2018 and 9M2019 represented the interest on Pre-IPO Convertible Bonds. Such interest was an imputed interest without any actual cash flow.

Income tax expense

Our Group is subject to income tax on an individual legal entity basis on profits arising in or derived from the tax jurisdictions in which companies comprising our Group domicile or operate.

(i) Cayman Islands/BVI profits tax

Our Group have not been subject to any taxation in the Cayman Islands/BVI.

(ii) Hong Kong profits tax

Hong Kong profits tax has been provided at the rate of 16.5%, in the FY2016, FY2017, FY2018 and 9M2019 on the estimated assessable profit for the Track Record Period. Our Group have not been subject to any Hong Kong profits tax.

FINANCIAL INFORMATION

(iii) PRC corporate income tax

PRC enterprise income tax has been generally provided at the applicable enterprise income tax rate of 25% on the estimated assessable profits of the companies in our Group during the Track Record Period, except for (i) certain of our Consolidated Affiliated Entities which qualified as PRC High and New Technology Enterprise in Mainland China where a lower PRC corporate income tax rate of 15% had been applied during the Track Record Period and (ii) certain of our Consolidated Affiliated Entities which applied the Small-Scaled Minimal Profit Enterprise Income Tax Preferential Policy announced by the State Administration of Taxation, who can enjoy 50% taxable income deduction and preferential rate of 20% was applied for the calculation of corporate income tax.

Our income tax expenses were RMB8.3 million, RMB10.6 million, RMB7.0 million and RMB10.9 million for FY2016, FY2017, FY2018 and 9M2019, respectively; while the effective tax rates for the same periods were 16.9%, 17.3%, 12.0% and 26.1%, respectively. Our effective tax rate was relatively low at 12.0% and 11.5% for FY2018 and 9M2018, respectively, mainly due to the reversal of impairment losses on trade receivables of RMB17.3 million and RMB16.3 million for the respective year/period, which was income not taxable. Please see the paragraph headed “Description of Certain Items of Combined Statements of Financial Position — Trade receivables” of this section for details. Excluding the impact of the reversal of impairment losses on trade receivables, the effective tax rate for FY2018 and 9M2018 was 17.0% and 16.8%, which is relatively stable compared to those for FY2016 and FY2017.

Our effective tax rate was relatively higher in 9M2019 at 26.1% primarily due to (i) the Listing expenses incurred of RMB8.8 million which was non-deductible for tax purposes; (ii) gain on disposal of the 28 Subsidiaries of RMB0.5 million which was not subject to tax; and (iii) the impact of 10% withholding tax levied on a portion of the retained earnings of our Group’s PRC subsidiaries distributable to foreign investment enterprises upon the set up of Contractual Arrangements of our Group in February 2019 (i.e. our “PRC Withholding Tax”). Excluding the Listing expenses and the impact of the PRC Withholding Tax, our effective tax rate would be 19.2% in 9M2019.

During the Track Record Period and up to the Latest Practicable Date, we had fulfilled all our income tax obligations and have not had any material unresolved income tax issues or disputes with the relevant tax authorities.

FINANCIAL INFORMATION

REVIEW OF HISTORICAL RESULTS OF OPERATION

9M2018 compared to 9M2019

Revenue

Our revenue increased by RMB50.4 million or 41.9% from RMB120.4 million in 9M2018 to RMB170.8 million in 9M2019 as a result of the increase in revenue from our mobile game development and operation business by RMB68.0 million and partially offset by the decrease in revenue from digital media content distribution business of RMB19.6 million.

Mobile game development and operation business

Our revenue from mobile game development and operation business increased by RMB68.0 million or 86.3% from RMB78.8 million in 9M2018 to RMB146.8 million in 9M2019 mainly due to the effect of the increased revenue from our development and operation of our multi-player games of RMB46.4 million.

Our revenue from development and operation of our multi-player mobile games was primarily attributable to our multi-player mobile game 霸業永恆 (Eternal Champion*) which was launched during 9M2019. The revenue from it amounted to RMB39.5 million, representing 26.9% of our total revenue from mobile game development and operation business. 霸業永恆 (Eternal Champion*) is our Group's first multi-player mobile game, which is a casual adventure game featuring strategic planning of fighting and killing the enemies. For further details on the relevant regulations, please see the section headed "Regulatory Overview — Regulations Related to Mobile Games and Internet Cultural Products (Including Digital Media Content)" of this prospectus.

Our revenue from our top five revenue-generating mobile games increased from RMB46.3 million in 9M2018 to RMB108.1 million in 9M2019. Such increase was primarily attributable to the increase in revenue derived from in-game purchases from our mobile games 霸業永恆 (Eternal Champion*).

Digital media content distribution business

Our revenue from digital media content distribution business decreased by RMB19.6 million or 47.1% from RMB41.6 million in 9M2018 to RMB22.0 million in 9M2019. The significant decrease was mainly attributable to the (i) decrease in new subscription resulting from the temporary halt of services of our major distribution platform for the upgrade of the user interface during 9M2019; and (ii) switch of our focus to intensify our efforts in the distribution of mobile games following the resumption of the approval of newly developed games by SAPPRFT in December 2018.

FINANCIAL INFORMATION

Cost of sales

Cost of sales increased by RMB38.6 million or 56.2% from RMB69.4 million in 9M2018 to RMB108.0 million in 9M2019 mainly attributable to the increase in our service fee charged by the distribution channel providers. Our multi-player mobile game business also contributed RMB37.8 million to the total cost of sales in 9M2019 compared to nil in 9M2018.

Gross profit and gross profit margin

As a result of the foregoing, our gross profit increased by RMB11.8 million or 23.1% from RMB51.0 million in 9M2018 to RMB62.8 million in 9M2019. Our gross profit margin decreased from 42.4% in 9M2018 to 36.8% in 9M2019 mainly due to the relatively lower gross profit margin from our multi-player mobile games development and operation. Our gross profit margin from the development and operation of our multi-player game was relatively lower at 18.5% compared to other mobile games. It was mainly attributable to the higher costs relating to distribution channels and maintenance of multi-player mobile games incurred by us as our Group has just started penetrating into the business line of multi-player mobile games and that our Group considered the operation of multi-player games are vastly different from that of single-player games.

Other income and gains

Other income and gains increased by RMB0.5 million from RMB1.0 million in 9M2018 to RMB1.5 million in 9M2019. The increase in other income and gains was mainly due to (i) gains on disposal of the 28 Subsidiaries of RMB0.5 million in 9M2019 compared to nil in 9M2018; and (ii) the increase in interest income of RMB0.3 million. The increase in other income and gains was partially offset by the decrease in government grants we received from RMB0.4 million in 9M2018 to nil in 9M2019.

Selling and distribution expenses

Selling and distribution expenses decreased by RMB0.6 million or 50.0% from RMB1.2 million in 9M2018 to RMB0.6 million in 9M2019 primarily due to the decrease in (i) business development expenses of RMB0.3 million as a result of decrease in the number of distribution channel providers during 9M2019 as we have focused our business model on a fewer number of competent distribution channel providers; and (ii) advertising expenses of RMB0.2 million.

Administrative expenses

Administrative expenses decreased by RMB1.7 million or 23.0% from RMB7.4 million in 9M2018 to RMB5.7 million in 9M2019 primarily due to the decrease in our staff costs and welfare of RMB1.3 million mainly due to the movement of staff in 9M2019.

FINANCIAL INFORMATION

Research and development expenses

Research and development expenses remained stable at RMB4.7 million in 9M2018 to RMB4.8 million in 9M2019.

Reversal of impairment/(impairment) of trade receivables

We recorded reversal of impairment loss on trade receivables of RMB16.3 million in 9M2018 in relation to the amounts which impairment losses were provided for in previous years as discussed above. The reversal then changed to an impairment of trade receivables of RMB1.0 million for 9M2019, the amounts were in relation to the amounts which were arrived at by using a provision matrix to measure expected credit losses.

Other expenses

Other expenses increased from RMB3.3 million in 9M2018 to RMB9.5 million in 9M2019 mainly due to the increase in Listing expenses incurred in the amount of RMB8.8 million in 9M2019.

Finance costs

We recorded an imputed interest of RMB0.3 million and RMB0.8 million as finance costs in relation to our issue of Pre-IPO Convertible Bonds in 9M2018 and 9M2019, respectively.

Income tax expense

Income tax expense increased by RMB5.0 million or 85.5% from RMB5.9 million in 9M2018 to RMB10.9 million in 9M2019. Our effective tax rate increased from 11.5% in 9M2018 to 26.1% in 9M2019 mainly due to the Listing expenses of RMB8.8 million incurred which was non-deductible for tax purposes.

Profit for the period

As a result of the foregoing, profit for the period decreased from RMB45.4 million in 9M2018 to RMB30.9 million in 9M2019. Our net profit margin decreased from 37.7% in 9M2018 to 18.1% in 9M2019 mainly due to (i) Listing expenses incurred of RMB8.8 million; (ii) the effect of the PRC Withholding Tax; and (iii) decrease in gross profit margin as mentioned previously.

Excluding the Listing expenses, our profit would amount to RMB48.7 million and RMB39.8 million for 9M2018 and 9M2019, respectively, being relatively stable, while our net profit margin would decrease from 40.4% in 9M2018 to 23.3% in 9M2019, mainly due to the decrease in our gross profit margin abovementioned.

FINANCIAL INFORMATION

FY2018 compared to FY2017

Revenue

Our revenue decreased by RMB27.7 million or 16.2% from RMB170.7 million in FY2017 to RMB143.0 million in FY2018 as a result of the decrease in revenue from our mobile game development and operation business by RMB60.5 million and partially offset by the increase in revenue from digital media content distribution business of RMB31.9 million.

Mobile game development and operation business

Our revenue from mobile game development and operation business decreased by RMB60.5 million or 40.0% from RMB151.1 million in FY2017 to RMB90.6 million in FY2018 mainly due to the Temporary Suspension. For further details on the relevant regulations, please see to the section headed “Regulatory Overview — Regulations Related to Mobile Games and Internet Cultural Products (Including Digital Media Content)” of this prospectus.

Our revenue from our top five revenue-generating games decreased from RMB97.9 million in FY2017 to RMB49.8 million in FY2018. Such decrease was primarily attributable to the decrease in average MPUs for our top five revenue-generating games from 1.2 million in FY2017 to 0.6 million in FY2018 mainly due to the decrease in MPU of our game 機智的小鳥 (Witty Bird*) in FY2018.

Digital media content distribution business

Our revenue from digital media content distribution business increased by RMB31.9 million or 162.8% from RMB19.6 million in FY2017 to RMB51.5 million in FY2018. The significant increase was mainly attributable to the switch of our focus to intensify our efforts in the distribution of digital media content in response to the Temporary Suspension. Please see the section headed “Business — Our competitive strengths — A synergetic business model empowered by complementary mobile game development and operation and digital media content distribution” of this prospectus for details.

In addition, the increase in revenue from digital media content distribution business in FY2018 as compared to that of FY2017 was also due to the revamp of the user interface of the major distribution platform and thus attracted more traffic from active users which in turn increased subscriptions of our digital media content.

Cost of sales

Cost of sales decreased by RMB13.2 million or 14.1% from RMB93.9 million in FY2017 to RMB80.7 million in FY2018 mainly attributable to the decrease in service fee paid to our distribution channel providers, which was generally in line with the decrease in our total revenue generated in FY2018.

FINANCIAL INFORMATION

Gross profit and gross profit margin

As a result of the foregoing, our gross profit decreased by RMB14.5 million or 18.9% from RMB76.8 million in FY2017 to RMB62.3 million in FY2018. Our gross profit margin decreased from 45.0% for FY2017 to 43.6% for FY2018, which was mainly due to the (i) increase in rate of service fee paid to our distribution channel providers for our mobile game development and operation business in FY2018 as a result of the suspension of approval of new games in March 2018 as discussed previously; and (ii) increase in services fee to our distribution channel providers for our digital media content business as more readers subscribed our media content through our distribution channel providers.

Other income and gains

Other income and gains decreased by RMB9.9 million or 82.5% from RMB12.0 million in FY2017 to RMB2.1 million in FY2018. The decrease in other income and gains was mainly due to decrease in (i) consultancy services income of RMB7.6 million generated in FY2017 which was non-recurring in nature; (ii) game licensing income of RMB0.9 million as we did not license any games in FY2018; and (iii) government grants in relation to our Consolidated Affiliated Entity qualified as a High and New Technology Enterprise in the PRC of RMB0.7 million in FY2017.

Selling and distribution expenses

Selling and distribution expenses remained relatively stable at RMB1.8 million and RMB1.7 million in FY2017 and FY2018, respectively.

Administrative expenses

Administrative expenses remained relatively stable at RMB10.3 million in FY2017 and RMB9.9 million in FY2018.

Research and development expenses

Research and development expenses decreased by RMB2.0 million or 24.1% from RMB8.3 million in FY2017 to RMB6.3 million in FY2018 mainly due to (i) decrease in staff costs and welfare of RMB1.7 million as a result of decrease in headcounts as previously discussed; and (ii) decrease in software and consumables expenses of RMB0.2 million, both resulting from the new policies on gaming industry implemented in 2018. For further details on the relevant regulations, please see the section headed “Regulatory Overview — Regulations Related to Mobile Games and Internet Cultural Products (Including Digital Media Content)” of this prospectus.

FINANCIAL INFORMATION

Reversal of impairment/(impairment) of trade receivables

We recorded a reversal of impairment loss on trade receivables of RMB17.3 million in FY2018 in relation to the amounts which impairment losses were provided for in previous years as discussed above.

Other expenses

Other expenses decreased by RMB0.4 million or 8.0% from RMB5.0 million in FY2017 to RMB4.6 million in FY2018 mainly due to the decrease in Listing expenses incurred in FY2018.

Finance costs

We recorded an imputed interest of RMB0.6 million as finance costs in relation to our issue of Pre-IPO Convertible Bonds during FY2018.

Income tax expense

Income tax expense decreased by RMB3.6 million or 34.0% from RMB10.6 million in FY2017 to RMB7.0 million in FY2018. Our effective tax rate decreased from 17.3% in FY2017 to 12.0% in FY2018 mainly due to the reversal of impairment loss on trade receivables of RMB17.3 million which was income not taxable.

Profit for the year

As a result of the foregoing, profit for the year remained relatively stable at RMB50.6 million in FY2017 and RMB51.7 million in FY2018. Our net profit margin increased from 29.7% in FY2017 to 36.1% in FY2018 mainly due to the reversal of impairment losses on trade receivables in FY2018, and partially offset by the decrease in other income and gains in FY2018 as compared to that in FY2017.

Excluding the Listing expenses and the reversal of impairment of trade receivables, our profit would amount to RMB57.7 million and RMB38.9 million for FY2017 and FY2018, respectively, representing a decrease of 32.6%; while our net profit margin would decrease from 33.8% in FY2017 to 27.2% in FY2018, mainly due to the decrease in our gross profit and gross profit margin, as well as the decrease in other income and gains abovementioned.

FINANCIAL INFORMATION

FY2017 compared to FY2016

Revenue

Our revenue increased by RMB30.9 million or 22.1% from RMB139.8 million in FY2016 to RMB170.7 million in FY2017 as a result of the increase in revenue from our mobile game development and operation business by RMB34.5 million and partially offset by the decrease in revenue from digital media content distribution business of RMB3.6 million.

Mobile game development and operation business

Our revenue from mobile game development and operation business increased by RMB34.5 million or 29.6% from RMB116.5 million in FY2016 to RMB151.1 million in FY2017. Our revenue from mobile game development and operation business increased in FY2017 mainly due to (i) increase in average MPUs for our top five revenue-generating games from 0.7 million in FY2016 to 1.2 million in FY2017; and (ii) increase in the ARPPU for our top five revenue-generating games from the range of RMB4.36 to RMB21.70 to RMB10.48 to RMB21.03 as we focus on those mobile games which are more popular; and (ii) allocate more resources and time on the development of boutique games, which feature better quality, more sophisticated and attractive storyline and sometimes supported by popular entertainment properties.

Digital media content distribution business

Our revenue from digital media content distribution business decreased by RMB3.6 million or 15.6% from RMB23.2 million in FY2016 to RMB19.6 million in FY2017. The decrease was mainly due to the decrease in revenue from SMS and comics and music (other than e-magazines) as we target to focus on the business of distribution on e-magazines which attracted more new subscribers in FY2017. Our revenue from e-magazines, thus, increased by RMB1.2 million in FY2017.

Cost of sales

Cost of sales increased by RMB19.2 million or 25.8% from RMB74.7 million in FY2016 to RMB93.9 million in FY2017 mainly attributable to increased service fee to distribution channel providers which was generally in line with the increase in our total revenue generated in FY2017.

FINANCIAL INFORMATION

Gross profit and gross profit margin

As a result of the foregoing, our gross profit rose by RMB11.7 million or 17.9% from RMB65.1 million in FY2016 to RMB76.8 million in FY2017. Our gross profit margin remained relatively stable at 46.6% for FY2016 and 45.0% for FY2017.

Other income and gains

Other income and gains increased by RMB7.8 million or 188.9% from RMB4.2 million in FY2016 to RMB12.0 million in FY2017. The increase in other income and gains was mainly due to (i) consultancy services income of RMB7.6 million generated in FY2017 as compared to nil in FY2016 which was non-recurring; and (ii) increase in interest income of RMB1.9 million primarily from wealth management products and banks, partially offset by the decrease in game licensing income of RMB1.0 million mainly due to decrease in the number of games we licensed to third party in FY2017.

Selling and distribution expenses

Selling and distribution expenses increased by RMB0.9 million or 89.3% from RMB0.9 million in FY2016 to RMB1.8 million in FY2017. The increase was primarily due to increase in (i) staff costs and welfare of RMB0.5 million as a result of increase in number of headcount and their compensation level; and (ii) business development expenses of RMB0.4 million for our business relations.

Administrative expenses

Administrative expenses increased by RMB3.1 million or 43.8% from RMB7.2 million in FY2016 to RMB10.3 million in FY2017. The increase was primarily due to increase in (i) staff costs and welfare of RMB1.7 million due to increase in headcounts and their compensation level; and (ii) professional fee of RMB1.4 million.

Research and development expenses

Research and development expenses remained relatively stable at RMB8.2 million in FY2016 and RMB8.3 million in FY2017.

FINANCIAL INFORMATION

Reversal of impairment/(impairment) of trade receivables

We recorded impairment loss on trade receivables of RMB3.8 million and RMB2.1 million in FY2016 and FY2017, respectively, in relation to the amounts we considered not recoverable as discussed above.

Other expenses

Other expenses increased by RMB4.7 million from RMB0.3 million in FY2016 to RMB5.0 million in FY2017 due to the recognition of Listing expenses.

Income tax expense

Income tax expense increased by RMB2.3 million or 28.3% from RMB8.3 million in FY2016 to RMB10.6 million in FY2017. Our effective tax rate remained relatively stable at 16.9% and 17.3% for FY2016 and FY2017, respectively.

Profit for the year

As a result of the foregoing, profit for the year increased by RMB10.1 million or 24.8% from RMB40.6 million in FY2016 to RMB50.6 million in FY2017. Our net profit margin remained relatively stable at 29.0% in FY2016 and 29.7% in FY2017. Excluding the Listing expenses and net impairment losses on trade receivables, our profit for the year amounted to RMB44.7 million and RMB57.7 million for FY2016 and FY2017, respectively, representing an increase of 21.5%, mainly due to the increase in our revenue and other income and gains abovementioned; while our net profit margin remained relatively stable at 32.0% in FY2016 and 33.8% in FY2017.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow

Our primary uses of cash are for the payment of distribution, procurement and development of games and digital media content, staff costs and welfare and various operating expenses and have been funded mainly by cash generated from our operation. Upon completion of the Global Offering, we currently expect that there will not be any material change in the sources and uses of cash of our Group in the future, except that we would have additional funds from proceeds of the Global offering for implementing our future plans as detailed under the section headed “Future Plans and Use of Proceeds” of this prospectus.

FINANCIAL INFORMATION

The following table summarizes, for the periods indicated, our statements of cash flows:

	FY2016	FY2017	FY2018	9M2018	9M2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> (unaudited)	<i>RMB'000</i>
Operating cash flows before					
movement in working capital	52,408	61,502	41,676	35,352	43,452
Change in working capital	455	28,351	(1,244)	(2,541)	(137,173)
Income tax paid	(14,551)	(15,062)	(7,734)	(7,011)	(3,059)
Net cash generated from/(used in)					
operating activities	38,312	74,791	32,698	25,800	(96,780)
Net cash generated from/(used in)					
investing activities	(34,663)	36,271	646	260	52,195 ^(Note)
Net cash used in financing activities	(3,208)	(20,000)	(50,995)	(30,995)	(17,000)
Net increase/(decrease) in cash and					
cash equivalents	441	91,062	(17,651)	(4,935)	(61,585)
Cash and cash equivalents at					
beginning of year/period	14,204	14,645	105,707	105,707	89,270
Effect of foreign exchange rate					
changes, net	–	–	1,214	1,214	(75)
Cash and cash equivalents at end of					
year/period	<u>14,645</u>	<u>105,707</u>	<u>89,270</u>	<u>101,986</u>	<u>27,610</u>

Note: In consideration of the repayment to the 28 Subsidiaries of RMB51.6 million included in operating activities, the net inflow to our Group of the disposal of the 28 Subsidiaries is RMB0.2 million.

Operating activities

During the Track Record Period, our cash inflow from operating activities was principally from the receipt of proceeds for the (i) purchase of virtual items in our mobile games; and (ii) subscription of digital media content. Our cash outflow used in operating activities was principally for (i) payment for licensing of mobile games, and digital media content; (ii) payment to our distribution channel providers; and (iii) staff costs and welfare.

For 9M2019, our Group had net cash used in operating activities of RMB96.8 million, mainly as a result of the cash generated from operations before working capital change of RMB43.5 million, taxes paid of RMB3.1 million and a negative change in working capital of RMB137.2 million. The change in working capital primarily reflected increase in prepayments, deposits and other receivables of RMB92.7 million primarily due to (i) the repayment of RMB51.6 million to the 28 Subsidiaries and increase in deposits paid to distribution channel providers and to licensors for obtaining licensing rights; and (ii) the increase in trade receivables of RMB58.3 million mainly due to the delay in settlement from China Mobile Internet and/or its affiliates, which acted as our major settlement agent and distribution channel provider for our mobile games and digital media, resulting from the upgrade of its settlement platforms, partially offset by the increase in contract liabilities of RMB3.0 million.

FINANCIAL INFORMATION

To improve our operating cash flow position in view of negative cash outflow from operating activities for 9M2019, we will continue to adopt and/or explore the measures including but not limited to (i) improving measures of collection of trade receivables in a timely manner and continue to expand to different payment platforms with better repayment schedules; (ii) carefully managing our development schedules to reduce the prepayments to licensors through corporate guarantees after the Listing; (iii) enhancing our management in distribution channels and hence reducing the amount of deposits and prepayments required by distribution channel providers through corporate guarantees after the Listing; and/or (iv) obtaining trade facilities by pledging the trade receivables with banks when necessary.

For FY2018, our Group had net cash generated from operating activities of RMB32.7 million, mainly as a result of the cash generated from operations before working capital change of RMB41.7 million, taxes paid of RMB7.7 million and a negative change in working capital of RMB1.2 million. The change in working capital primarily reflected decrease in trade receivables of RMB36.9 million as a result of decrease in revenue and decrease in trade payables of RMB19.7 million due to repayment to our distribution channel providers.

For FY2017, our Group had net cash generated from operating activities of RMB74.8 million, mainly as a result of the cash generated from operations before working capital change of RMB61.5 million, taxes paid of RMB15.1 million and change in working capital of RMB28.4 million. The change in working capital primarily reflected decrease in trade receivables of RMB61.5 million due to repayment from our settlement agents. The inflow was partially offset by decrease in trade payables of RMB18.9 million and net advance to shareholders of RMB14.7 million.

For FY2016, our Group had net cash generated from operating activities of RMB38.3 million, mainly as a result of the cash generated from operations before working capital change of RMB52.4 million, taxes paid of RMB14.6 million and change in working capital of RMB0.5 million. The change in working capital primarily reflected the increase in trade payables of RMB18.5 million which was partially offset by increase in trade receivables of RMB11.6 million and net advance to shareholders of RMB9.7 million.

Investing activities

During the Track Record Period, our cash inflow from investing activities was principally proceeds from disposal of financial assets at fair value through profit or loss and interest received. Our cash outflow used in investing activities was principally for investments in financial assets at fair value through profit or loss.

FINANCIAL INFORMATION

For 9M2019, our Group had net cash from investing activities of RMB52.2 million primarily attributable to proceeds from disposal of the 28 Subsidiaries of RMB51.8 million. In consideration of the repayment to the 28 Subsidiaries of RMB51.6 million included in operating activities, the net inflow to our Group of the disposal of the 28 Subsidiaries is RMB0.2 million.

For FY2018, our Group had net cash from investing activities of RMB0.6 million primarily attributable to interest received of RMB0.6 million.

For FY2017, our Group had net cash from investing activities of RMB36.3 million primarily attributable to net proceeds from investment in financial assets at fair value through profit or loss of RMB34.6 million.

For FY2016, our Group had net cash used in investing activities of RMB34.7 million primarily attributable to net outflow from investment in financial assets at fair value through profit or loss of RMB34.6 million.

Financing activities

During the Track Record Period, our cash inflow from financing activities was principally proceeds from beneficial shareholders. Our cash outflow used in financing activities was principally for payment of dividend and acquisition of non-controlling interests.

For 9M2019, our Group had net cash used in financing activities of RMB17.0 million attributable to dividends paid by a subsidiary to the then shareholders of RMB17.0 million during 9M2019.

For FY2018, our Group had net cash used in financing activities of RMB51.0 million primarily attributable to dividends paid of RMB66.5 million partially offset by the proceed from issue of Pre-IPO Convertible Bond of RMB15.5 million.

For FY2017, our Group had net cash used in financing activities of RMB20.0 million primarily attributable to total dividends paid of RMB20.0 million.

For FY2016, our Group had net cash used in financing activities of RMB3.2 million primarily attributable to (i) acquisition of the non-controlling interests of RMB2.0 million for the remaining 20% equity interest in Family Communications; and (ii) dividend amounted to RMB1.2 million paid to a non-controlling shareholder of one of our Consolidated Affiliated Entities. Please see note 27 of the Accountants' Report in Appendix I to this prospectus for details of the acquisition of the non-controlling interests.

FINANCIAL INFORMATION

Net Current Assets

We recorded net current assets of RMB102.0 million, RMB81.9 million, RMB83.7 million, RMB115.3 million and RMB126.3 million as at 31 December 2016, 2017 and 2018, 30 September 2019 and 31 December 2019, respectively. The table below sets out selected information for our current assets and current liabilities as at the dates indicated, respectively:

	As at 31 December			As at 30 September	As at 31 December
	2016	2017	2018	2019	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(unaudited)
Current assets					
Trade receivables	125,723	62,150	41,166	96,280	66,882
Prepayments, deposit and other receivables	2,970	3,888	17,909	55,502	59,772
Due from shareholders	–	12,934	13,637	13,589	13,202
Financial assets at fair value though profit or loss	34,600	–	–	–	–
Cash and cash equivalents	14,645	105,707	89,270	27,610	50,897
	<u>177,938</u>	<u>184,679</u>	<u>161,982</u>	<u>192,981</u>	<u>190,753</u>
Current liabilities					
Trade payables	54,535	35,669	15,994	24,013	16,557
Contract liabilities	–	–	–	2,968	3,864
Other payables and accruals	12,817	64,681	44,813	25,269	17,223
Convertible bonds	–	–	15,757	17,058	16,363
Due to shareholders	1,748	–	–	–	–
Tax payable	6,886	2,441	1,743	8,415	10,435
	<u>75,986</u>	<u>102,791</u>	<u>78,307</u>	<u>77,723</u>	<u>64,442</u>
Net current assets	<u>101,952</u>	<u>81,888</u>	<u>83,675</u>	<u>115,258</u>	<u>126,311</u>

Our net current assets decreased from RMB102.0 million as at 31 December 2016 to RMB81.9 million as at 31 December 2017. The decrease was primarily due to (i) decrease in trade receivables of RMB63.6 million mainly due to settlements from our settlement agents; and (ii) increase in other payables and accruals of RMB51.9 million mainly due to dividend payable of RMB46.5 million. The decrease was partially offset by the increase in amounts due from shareholders of RMB12.9 million.

FINANCIAL INFORMATION

Our net current assets then increased to RMB83.7 million as at 31 December 2018 mainly due to the (i) increase in prepayments, deposits other receivables and other assets of RMB14.0 million primarily due to deposit paid to the distribution channel providers; and (ii) decrease in trade payables of RMB19.7 million as a result of settlement to our distribution channel providers. The increase was partially offset by the decrease in trade receivables of RMB21.0 million due to settlement from our settlement agents.

Our net current assets increased to RMB115.3 million as at 30 September 2019 primarily due to the increase in trade receivables of RMB55.1 million and prepayments, deposits and other receivables of RMB37.6 million, partially offset by the decrease in other payables and accruals of RMB19.5 million mainly resulting from dividend payment of RMB17.0 million.

Our net current assets further increased to RMB126.3 million as at 31 December 2019 primarily due to the decrease in trade payables of RMB7.5 million due to settlement to our distribution channel providers.

Working Capital

Our Directors confirm that, taking into consideration the financial resources available to us, including cash from our internal resources and the estimated net proceeds from the Global Offering (after a possible Downward Offer Price Adjustment setting the final Offer Price up to 10% below the bottom end of the indicative Offer Price range), we have sufficient working capital for at least the next 12 months commencing from the date of this prospectus.

Save as disclosed in this prospectus, our Directors are not aware of any other factors that would have a material impact on our Group's liquidity. Details of the funds necessary to meet our existing operations and to fund our future plans are set out in the section headed "Future Plans and Use of Proceeds" of this prospectus.

DESCRIPTION OF CERTAIN ITEMS OF COMBINED STATEMENTS OF FINANCIAL POSITION

Trade receivables

Our trade receivables primarily consist of trade receivables from our settlement agents who collect the proceeds from our sale of in-game virtual items and subscription fee of our digital media content. We generally receive the proceeds from them within three months after purchase was made by the end-users.

FINANCIAL INFORMATION

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

	As at 31 December			As at 30 September
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	143,274	81,791	44,866	100,738
Less: impairment provision . . .	(17,551)	(19,641)	(3,700)	(4,458)
Trade receivables- net	<u>125,723</u>	<u>62,150</u>	<u>41,166</u>	<u>96,280</u>

Impairment under HKFRS 9 for the year ended 31 December 2018 and nine months ended 30 September 2019

An impairment analysis is performed at 31 December 2018 and 30 September 2019 using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various debtor segments with similar loss patterns by debtor type. The calculation reflects the probability-weighted outcome and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Set out below is the information about the credit risk exposure on our trade receivables using a provision matrix:

As at 31 December 2018

	Expected credit loss rate	Gross carrying amount	Expected credit losses
		<i>RMB'000</i>	<i>RMB'000</i>
Credit-impaired receivables	100%	2,368	(2,368)
Other trade receivables aged:			
Current and less than 12 months			
past due	2%–4%	42,317	(1,320)
Over 12 months past due	3%–8%	181	(12)
		<u>44,866</u>	<u>(3,700)</u>

FINANCIAL INFORMATION

As at 30 September 2019

	Expected credit loss rate	Gross carrying amount	Expected credit losses
		<i>RMB'000</i>	<i>RMB'000</i>
Credit-impaired receivables	100%	2,136	(2,136)
Other trade receivables aged:			
Current and less than 12 months			
past due	1%-7%	98,209	(2,292)
Over 12 months past due	4%-9%	393	(30)
		<u>100,738</u>	<u>(4,458)</u>

Impairment under HKAS 39 for the years ended 31 December 2016 and 2017

At 31 December 2016 and 2017, the above provision for impairment of trade receivables, which was measured based on incurred credit losses under HKAS 39, was a provision for individually impaired trade receivables of RMB17,551,000 and RMB19,641,000 with carrying amounts before provision of RMB17,551,000 and RMB19,641,000, respectively.

The aging analysis of the trade receivables that are not individually nor collectively considered to be impaired is as follows:

	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Neither past due nor impaired	13,135	37,813
1 to 30 days past due	12,522	6,824
31 to 90 days past due	24,693	5,484
Over 90 days past due	75,373	12,029
	<u>125,723</u>	<u>62,150</u>

Our trade receivables decreased from RMB125.7 million as at 31 December 2016 to RMB62.2 million as at 31 December 2017, which was mainly due to settlement from China Mobile Internet and/or its affiliates for the delayed payment after their internal reorganization. Our Directors understand that China Mobile Internet and/or its affiliates has been undergoing an internal reorganization in early 2016, certain business has been transferred to other entities within the same group of China Mobile Internet and/or its affiliates. As a result, there has been delay in a lot of processes including settlement to us, which contributed to the significantly higher amount of trade receivables that are past due but not impaired, amounted to RMB112.6 million, as at 31 December 2016. In FY2017, China Mobile Internet and/or its affiliates gradually settled their payment to us which led to a

FINANCIAL INFORMATION

reduction in our trade receivables balance amounted to RMB62.2 million as at 31 December 2017. Consequently, our trade receivables that are past due but not impaired decreased to RMB24.3 million as at 31 December 2017. Please see section headed “Risk Factors — Risks Relating to Our Business — If we are no longer able to benefit from the synergy of our business cooperation with our business partners, including China Mobile Internet and/or its affiliates and third-party content providers, our business may be adversely affected” for details.

Our trade receivables decreased to RMB41.2 million as at 31 December 2018 which was in line with the decrease in our revenue as discussed previously. Our trade receivables increased to RMB96.3 million as at 30 September 2019 mainly due to the launch of our 38 new mobile games in 9M2019 in which we are yet to collect the majority of trade receivables from our settlement agents as at 30 September 2019 given our settlement agents normally settled the trade receivables on terms of 60 days, whereas we did not launch any new mobile games toward the period ended 31 December 2018, in particular, November and December 2018. Our increase in trade receivables as at 30 September 2019 was also due to the delay in payment from China Mobile Internet and/or its affiliates resulting from the upgrade of settlement platforms. To the best knowledge of our Directors, China Mobile Internet and/or its affiliates is gradually resuming settlement of outstanding trade receivables. During the Track Record Period, we had not experienced any material default from China Mobile Internet and/or its affiliates and such amounts was considered recoverable as at 30 September 2019.

Trade receivables that were past due but not impaired relate to a number of independent debtors that have a good track record with our Group. Based on past experience, our Directors are of the opinion that no provision for impairment under HKAS 39 is necessary in respect of these balances as there has not been a significant change in their credit quality and the balances are still considered fully recoverable.

We provide impairment losses to our trade receivables when we considered such amount is not recoverable. Please see paragraph headed “Financial Information — Description of selected items in statements of comprehensive income — Reversal of impairment/(impairment) of trade receivables” for details.

Our settlement agents normally settled the trade receivables on terms of 60 days. Our Group seeks to maintain strict control over our outstanding receivables and has a credit control department to minimize our credit risk. Overdue balances are reviewed regularly by senior management and will be followed by actions such as communication or legal actions with the settlement agents. We typically do not require any collateral as security.

FINANCIAL INFORMATION

For the balance as at 31 December 2016 and 2017, we assess whether there is objective evidence, such as recoverability of debts, that trade receivables are impaired in accordance with HKAS39. For the balance as at 31 December 2018 and 30 September 2019, an impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses prescribed by HKFRS 9. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns and debtors type. 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. As a result, our impairment balance amounted to RMB3.7 million as at 31 December 2018 and RMB4.5 million as at 30 September 2019.

As discussed above, our Group is yet to collect the majority of trade receivables from our settlement agents, in particular, China Mobile Internet and/or its affiliates due to the upgrade of its settlement platforms, resulting the delay in settlement from China Mobile Internet and/or its affiliates. Accordingly, as at the Latest Practicable Date, RMB63.2 million or 62.7% of our trade receivables outstanding (before impairment provision) as at 30 September 2019 were subsequently settled.

The table below sets forth the average turnover days of trade receivables for the periods indicated:

	<u>FY2016</u>	<u>FY2017</u>	<u>FY2018</u>	<u>9M2019</u>
Average turnover days of trade receivables ⁽¹⁾	<u>317</u>	<u>201</u>	<u>132</u>	<u>109</u>

(1) Average turnover days of trade receivables for FY2016, FY2017, FY2018 and 9M2019 is derived by dividing the arithmetic mean of the opening and closing balances of trade receivables for the relevant year/period by revenue and multiplying by 365/270 days.

Our average turnover days of trade receivables decreased from 317 days in FY2016 to 201 days in FY2017, mainly due to settlement from China Mobile Internet and its affiliates and due to implementation of more stringent control on collection of trade receivables. Consequently, our turnover days further decreased to 132 days in FY2018. Our turnover days further decreased to 109 days in 9M2019 mainly attributable to the revenue generated from our mobile game which payments were made through mobile payment portals (i.e. two of the Leading Mobile Payment Platforms) that generally settled within a shorter period of time.

FINANCIAL INFORMATION

Prepayments, deposits and other receivables

The following table sets forth the breakdown of our prepayments, deposits and other receivables as at the dates indicated.

	As at 31 December			As at 30 September
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Prepayments	129	2,928	5,822	24,157
Deposits and other receivables	2,841	960	12,087	31,345
Total	<u>2,970</u>	<u>3,888</u>	<u>17,909</u>	<u>55,502</u>

Our prepayments mainly comprise prepayments for Listing expenses, authorization of IP rights for games and others. Our deposits and other receivables mainly represent deposits paid for rental, utilities and to our distribution channel providers and content providers. The balances increased from RMB3.0 million as at 31 December 2016 to RMB3.9 million as at 31 December 2017 mainly attributable to increase in prepayments for (i) Listing expenses of RMB1.2 million in FY2017; and (ii) expenses for authorization of the IP rights of RMB0.4 million for games. Such increase was partially offset by the decrease in deposits and other receivables mainly represented by repayment of deposit from a distribution channel provider of RMB2.0 million as we ceased to engage it as our distribution channel provider in FY2017.

Our balance then increased to RMB17.9 million as at 31 December 2018 mainly due to increase in (i) deposit of RMB10.0 million paid to a distribution channel provider for the distribution of the first multi-player mobile game in January 2019; (ii) deposit of RMB1.5 million paid to a new settlement agent for our digital media content distribution business; and (iii) prepaid Listing expenses of RMB1.5 million.

Our balance then further increased to RMB55.5 million as at 30 September 2019 primarily due to the increase in (i) deposits and other receivables of RMB19.3 million, of which (a) RMB10.0 million was deposits paid to licensors for obtaining licensing rights for a total of 19 games; and (b) RMB10.0 million deposit paid for a new distribution channel provider for the distribution of our second multi-player game launched in June 2019, and (ii) prepayments of RMB18.3 million primarily for (a) prepayments of RMB9.5 million to two third-party developers for the development of certain single-player and multi-player games; (b) prepayments to a distribution channel of our multi-player mobile game 霸業永恆(Eternal Champion*) of RMB2.6 million; and (c) prepaid Listing expenses of RMB5.4 million.

FINANCIAL INFORMATION

Financial assets at fair value through profit or loss

Our financial assets at fair value through profit or loss represents several wealth management products issued by commercial banks in the PRC which had no guarantee returns. The financial assets at fair value through profit or loss amounted to RMB34.6 million, nil, nil and nil as at 31 December 2016, 2017, 2018 and 30 September 2019, respectively. The initial terms ranging from no fixed terms to 45 days with the range of returns at a range of 2.0% to 4.1% during our holding period. The financial assets at fair value through profit or loss was primarily used to enhance the return on our asset. We expect to cease all of these arrangements before Listing and currently do not intend to invest in financial assets at fair value through profit or loss after the Listing.

Trade payables

Our trade payables are derived primarily from payables to our distribution channel providers. We generally repay our trade payables after receiving amount from our trade receivables. The following table sets forth the aging analysis of our trade payables as at the dates indicated:

	As at 31 December			As at 30 September
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 month	3,519	8,256	2,773	6,955
1 to 2 months	3,545	11,681	3,332	8,378
2 to 3 months	6,207	9,874	1,916	3,797
Over 3 months	41,264	5,858	7,973	4,883
Total	<u>54,535</u>	<u>35,669</u>	<u>15,994</u>	<u>24,013</u>

Our trade payables decreased from RMB54.5 million as at 31 December 2016 to RMB35.7 million as at 31 December 2017 and further decreased to RMB16.0 million as at 31 December 2018 as a result of settlement to our distribution channel providers after the receipt of payment from China Mobile Internet and its affiliates. Our trade payables increased to RMB24.0 million as at 30 September 2019 mainly due to an increase in revenue in the second quarter of 2019 from the first quarter of 2019 and hence an increase in service fee charged by distribution channel providers as at 30 September 2019.

FINANCIAL INFORMATION

The trade payables are non-interest-bearing and are normally settled on terms ranging from 30 to 90 days. The following table sets out the average trade payables turnover days for the Track Record Period:

	<u>FY2016</u>	<u>FY2017</u>	<u>FY2018</u>	<u>9M2019</u>
Average turnover days of trade payables ⁽¹⁾	<u>219</u>	<u>175</u>	<u>117</u>	<u>50</u>

(1) Average turnover days of trade payables for each of FY2016, FY2017, FY2018 and 9M2019 is derived by dividing the arithmetic mean of the opening and closing balances of trade payables for the relevant period by cost of sales and multiplying the resulting value by 365/270 days.

Average trade payables turnover days decreased from 219 days in FY2016 to 175 days in FY2017 and further to 117 days in FY2018, which was mainly due to repayment to our distribution channel providers after the receipt of payment from China Mobile Internet and its affiliates. Our turnover days decreased to 50 days in 9M2019 primarily due to the reduced balance as at 31 December 2018 as mentioned.

As at the Latest Practicable Date, RMB21.9 million or 91.3% of trade payables outstanding as at 30 September 2019 had been subsequently settled. Our Directors confirmed that during the Track Record Period and up to the Latest Practicable Date, there was no material default in payment of trade payables.

Contract liabilities

Our contract liabilities represented the deferred revenue from multi-player mobile games which primarily consists of the unamortized revenue from sales of the in-game items and premium features for multi-player mobile games, where there is still an implied obligation to be provided by our Group. We recorded contract liabilities of RMB3.0 million as at 30 September 2019 only as we commenced the operation of multi-player mobile games during 9M2019. The amount is expected to be recognised as revenue within one year.

FINANCIAL INFORMATION

Other payables and accruals

Our other payables and accruals mainly represented dividend payable, receipts in advance for licensing of our games previously launched by us to third parties, accruals for salary and other staff benefits and other tax payables mainly for value-added tax and others. The table below sets forth, as at the end of reporting periods indicated, the breakdown of our other payables and accruals:

	As at 31 December			As at 30 September
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Accruals	3,497	5,260	3,000	1,099
Listing expense payables	–	4,145	3,993	1,001
Dividend payable	–	46,500	26,500	9,500
Other tax payables	6,458	1,738	536	3,124
Other payables	2,862	7,038	10,784	10,545
Total	<u>12,817</u>	<u>64,681</u>	<u>44,813</u>	<u>25,269</u>

Other payables and accruals increased from RMB12.8 million as at 31 December 2016 to RMB64.7 million as at 31 December 2017, which was mainly attributable to increase in (i) dividend payables of RMB46.5 million; (ii) accruals of salary and other staff benefits of RMB1.8 million as a result of accrued bonus; and (iii) increase in other payables of RMB4.2 million mainly due to increase in dividend payable to non-controlling interest of RMB3.5 million. Our other payables and accruals balance decreased to RMB44.8 million as at 31 December 2018 primarily due to decrease of dividend payables of RMB20.0 million in FY2018. Our other payables and accruals further decreased to RMB25.3 million as at 30 September 2019 primarily attributable to the decrease in (i) dividend payables of RMB17.0 million; (ii) Listing expenses payables of RMB3.0 million; and (iii) decrease in accruals of RMB1.9 million primarily due to decrease in accrued bonus as at 30 September 2019.

Amounts due from/to shareholders

Our amounts due to shareholders amounted to RMB1.7 million, nil, nil and nil as at 31 December 2016, 2017, 2018 and 30 September 2019, respectively, while our amount due from shareholders amounted to nil, RMB12.9 million, RMB13.6 million and RMB13.6 million as at respective date. The amounts mainly arose from fund transfer to our shareholders.

All our amounts due from/to shareholders were non-trade related, unsecured, interest-free and repayable on demand. All the amounts due from shareholders are expected to be settled by distribution of dividend before Listing. For further details of such balances with shareholders, please see notes 23 of the Accountants' Reports in Appendix I to this prospectus.

FINANCIAL INFORMATION

Pre-IPO Convertible Bonds

On 28 May 2018, our Company, AE Majoris Tech and AEM PIPO entered into a subscription agreement pursuant to which AE Majoris Tech and AEM PIPO agreed to subscribe for the zero coupon convertible bonds issued by our Company in the aggregate principal amount of HK\$19,000,000 and the issuance of the Pre-IPO Convertible Bonds by our Company to AEM PIPO and AE Majoris Tech was completed on 29 May 2018. The carrying value of our Pre-IPO Convertible Bonds was RMB15.8 million and RMB17.1 million as at 31 December 2018 and 30 September 2019, respectively. Please see the section headed “History, Reorganization and Group Structure — Pre-IPO Investment” of this prospectus for details.

The Pre-IPO Convertible Bonds are convertible at the option of the bondholders into 6,990 ordinary shares of our Company, which represents 5.0% of our Company’s entire issued share capital immediately after the completion of the capitalization issue and global offering of the proposed listing of shares of our Company on the Main Board of the Stock Exchange (the “**Proposed Listing**”), at any time prior to the Maturity Date. The Pre-IPO Convertible Bonds are redeemable at the option of the bondholders at the principal amount if (i) the Proposed Listing is rejected based on a written notice by the Securities and Futures Commission or the Stock Exchange; (ii) our Company confirms by a written notice that it has aborted the listing; or (iii) our Company fails to achieve a listing by 30 June 2020. The maturity date of the Subscription Agreement (as amended and supplemented by the Supplemental Deed), i.e. 30 June 2020, may be extended, at the election of AE Majoris Tech and AEM PIPO, to a date as agreed upon by the Company and AE Majoris Tech and AEM PIPO upon delivery of a written notice by AE Majoris Tech and AEM PIPO to the Company not less than 30 calendar days in advance (“**Extended Maturity Date**”). Please see note 22 of the Accountants’ Report in Appendix I to this prospectus and “Risk Factors — Risks Relating to the Global Offering — The shareholding percentages of the existing shareholders will be diluted following the automatic conversion of Shares in full (but not part) on the Listing Date” of this prospectus for details.

CAPITAL EXPENDITURES

Our Group’s capital expenditures have principally consisted of expenditures on acquisitions of furniture, fixtures and office equipment for our operations. During the Track Record Period, our Group incurred capital expenditures of RMB0.2 million, RMB0.8 million and RMB9,000 and RMB0.2 million, respectively. Between 1 October 2019 and the Latest Practicable Date, we did not make any material capital expenditures.

FINANCIAL INFORMATION

For each of the year ended 31 December 2019 and 2020, we estimate that the capital expenditures will amount to RMB5.8 million and RMB9.7 million primarily for upgrading our information technology infrastructure and improving storage capacity and online server load.

Our Group's projected capital expenditures are subject to revision based upon any future changes in our business plan, market conditions, and economic and regulatory environment. Please see the section headed "Future Plans and Use of Proceeds" of this prospectus for details.

We expect to fund our contractual commitments and capital expenditures principally through the net proceeds we receive from the Global Offering, cash generated from our operating activities and proceeds from borrowings and notes. We believe that these sources of funding will be sufficient to finance our contractual commitments and capital expenditure needs for the next 12 months.

PROPERTY INTERESTS

Our Directors confirm that, as at the Latest Practicable Date, there were no circumstances that would give rise to a disclosure requirement under Rules 5.01 to 5.10 of the Listing Rules. As at the Latest Practicable Date, our property interests do not form part of our property activities and no single property interest that forms part of our non-property activities has a carrying amount of 15% or more of our total assets.

CONTRACTUAL AND CAPITAL COMMITMENTS

Capital commitments

During the Track Record Period, we had no capital commitment that were not provided for in our combined financial statements.

INDEBTEDNESS

During the Track Record Period and as at 31 December 2019, being the latest practicable date for the purpose of the indebtedness statements, we have no bank borrowings. No related covenant was noted at the same periods. No banking facilities was available to as at 31 December 2019.

As at 31 December 2019, the carrying value of our Pre-IPO Convertible Bonds were RMB16.4 million. Please see the paragraph headed "Description of Certain Items of Combined Statements of Financial Position — Pre-IPO Convertible Bonds" of this section for details.

Our Group has assessed the effects of adoption of HKFRS 16 on our financial statements and considered that there was no lease liability as at 31 December 2019 and the adoption did not have impact on our indebtedness as at 31 December 2019.

FINANCIAL INFORMATION

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, our Group did not have any outstanding loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptable credits, debentures, mortgages, charges, finance leases or hire purchases commitments, guarantees, material covenants, or other material contingent liabilities as at 31 December 2019, being the latest practicable date for the purpose of the indebtedness statements.

Contingent liabilities

During the Track Record Period and up to 31 December 2019, being the latest practicable date for the purpose of the indebtedness statement, we did not have any material contingent liabilities or guarantees.

No material indebtedness change

Save as disclosed above, our Directors confirm that, up to the Latest Practicable Date, there has been no material adverse change in indebtedness of our Group since 31 December 2019, being the latest practicable date for the preparation of the indebtedness statement in this prospectus.

Our Directors confirm that as at the Latest Practicable Date, our Group did not have any plans to raise any material debt financing shortly after Listing.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENT

During the Track Record Period and up to the Latest Practicable Date, we had not entered into any off-balance sheet commitments and transaction.

TRANSACTIONS WITH RELATED PARTIES

With respect to the related party transactions set forth in note 30 to the Accountants' Report set out in Appendix I to this prospectus, our Directors have confirmed that each transaction set forth therein was conducted on arm's length basis, on normal commercial terms and in the ordinary course of business. Our Directors consider that these related party transactions would not distort our results in material respects during the Track Record Period and would not make our historical results not reflective of our future performance.

FINANCIAL INFORMATION

KEY FINANCIAL RATIOS

The following table sets forth our key financial ratios as at each of the years dates indicated:

	FY2016	FY2017	FY2018	9M2019
Gross profit margin (%) ⁽¹⁾	46.6	45.0	43.6	36.8
Net profit margin (%) ⁽²⁾	29.0	29.7	36.1	18.1
Net profit margin before interest and tax (%) ⁽³⁾	35.0	35.9	41.5	25.0
Interest coverage (<i>times</i>) ⁽⁴⁾	N/A	N/A	N/A	N/A
Return on equity (%) ⁽⁵⁾	39.7	61.1	61.2	N/A
Return on total assets (%) ⁽⁶⁾ . .	22.8	27.3	31.8	N/A

	As at 31 December			As at 30 September
	2016	2017	2018	2019
Current ratio (<i>times</i>) ⁽⁷⁾	2.3	1.8	2.1	2.5
Quick ratio (<i>times</i>) ⁽⁸⁾	2.3	1.8	2.1	2.5
Gearing ratio (%) ⁽⁹⁾	1.7	N/A	N/A	N/A
Net debt to equity ratio (%) ⁽¹⁰⁾	N/A	N/A	N/A	N/A

Our Group has assessed the effects of adoption of HKFRS 16 on our financial statements and considered that the adoption did not have a significant impact on our financial positions, results of operations and key financial ratios.

Notes:

- (1) Gross profit margin for FY2016, FY2017, FY2018 and 9M2019 was calculated on gross profit for the year/period divided by revenue for the respective year/period.
- (2) Net profit margin for FY2016, FY2017, FY2018 and 9M2019 was calculated on profit for the year/period divided by revenue for the respective year/period.
- (3) Net profit margin before interest and tax is calculated based on the net profit (excluding other comprehensive income) netting off the interest and tax expense for the financial year divided by total revenue for the financial year multiplied by 100%.
- (4) Interest coverage is calculated based on the profit before interest and tax for the financial year divided by interest expenses, except for any imputed interest, for the financial year.
- (5) Return on equity for FY2016, FY2017 and FY2018 was calculated based on the profit for the respective years divided by the total equity as at the respective year and multiplied by 100%.
- (6) Return on total assets for FY2016, FY2017 and FY2018 was calculated based on the net profit for the respective years divided by the total assets as at the respective year and multiplied by 100%.
- (7) Current ratios as at 31 December 2016, 2017, 2018 and 30 September 2019 were calculated based on the total current assets as at the respective dates divided by the total current liabilities as at the respective dates.
- (8) Quick ratio is calculated based on the total current assets (excluding inventories) at the end of the financial year divided by the total current liabilities at the end of financial year.

FINANCIAL INFORMATION

- (9) Gearing ratios as at 31 December 2016, 2017 and 2018 were calculated based on the total debt (exclude Pre-IPO Convertible Bond) as at the respective dates divided by total equity as at the respective years/period and multiplied by 100%. Total debt refers to all borrowings of our Group, which included amounts due to shareholders.
- (10) Net debt to equity ratios as at 31 December 2016, 2017 and 2018 was calculated based on net debts (being total borrowings (exclude Pre-IPO Convertible Bond) net of cash and cash equivalents) as at the respective dates divided by total equity as at the respective years/period.

Gross profit margin

Our gross profit margin remained relatively stable at 46.6% for FY2016 and 45.0% for FY2017. Our gross profit margin decreased to 43.6% for FY2018, which was mainly due to the (i) increase in cost of distributing games in FY2018 as a result of the general decline in the game industry in FY2018; and (ii) increase in sharing to our distribution channel providers for our digital media content business as more readers subscribed our media content through our distribution channel providers. Our gross profit margin decreased from 42.4% in 9M2018 to 36.8% in 9M2019 mainly due to the relatively lower gross profit margin from our multi-player mobile games development and operation. Our gross profit margin from the development and operation of our multi-player game was relatively lower at 18.5% compared to other mobile games. It was mainly attributable to the higher costs relating to distribution channels and maintenance of multi-player mobile games incurred by us as our Group has just started penetrating into the business line of multi-player mobile games. Please see the paragraph headed “Review of Historical Results of Operation” of this section for more details on our gross profit margins.

Net profit margin

Our net profit margin remained relatively stable at 29.0% in FY2016 and 29.7% in FY2017. Our net profit margin increased to 36.1% in FY2018 mainly due to the combined effect of (i) reversal of impairment losses recognized in FY2018; and (ii) decrease in gross profit margin in FY2018 compared to that in FY2017. Our net profit margin decreased from 37.7% in 9M2018 to 18.1% in 9M2019 mainly due to Listing expense incurred and decrease in gross profit margin as mentioned previously. Please see the paragraph headed “Review of Historical Results of Operation” of this section for more details on our net profit margins.

Net profit margin before interest and tax

Our net profit margin before interest and tax remained relatively stable at 35.0% in FY2016 and 35.9% in FY2017. Our net profit margin before interest and tax increased to 41.5% in FY2018 mainly due to the combined effect of (i) reversal of impairment losses recognized in FY2018; and (ii) decrease in gross profit margin in FY2018 compared to that in FY2017.

Our net profit margin before interest and tax decreased from 42.9% in 9M2018 to 25.0% in 9M2019, mainly due to Listing expense incurred and decrease in gross profit margin as mentioned previously.

FINANCIAL INFORMATION

Interest coverage

During the Track Record Period, our Group did not have any interest-bearing borrowings as at each reporting date. Thus, the interest coverage was not applicable to our Group. Our group recorded finance costs of RMB0.6 million and RMB0.8 million in FY2018 and 9M2019, respectively, in relation to Pre-IPO Convertible Bond which does not have cash outflow.

Return on equity

Our return on equity increased from 39.7% in FY2016 to 61.1% in FY2017 mainly due to decrease in total equity as a result of interim dividend of RMB70.0 million declared despite increase in profit generated in FY2017. Our return on equity remained relatively stable at 61.2% in FY2018.

Return on total assets

Our return on total assets increased from 22.8% in FY2016 to 27.3% in FY2017 mainly due to increase in profit generated in FY2017 and decrease in trade receivables as at 31 December 2017 abovementioned. Our return on total assets increased to 31.8% in FY2018 mainly due to decrease in our total assets as a result decrease in trade receivables in FY2018.

Current ratio and quick ratio

Our current ratio decreased from 2.3 as at 31 December 2016 to 1.8 as at 31 December 2017 mainly due to decrease in trade receivables mainly as a result of settlements from our telecommunications operators or their official distribution channels. The current ratio then increased to 2.1 as at 31 December 2018 mainly due to decrease in trade payables as at 31 December 2018 abovementioned. The current ratio remained relatively stable at 2.5 as at 30 September 2019.

As we have no inventory during the Track Record Period, our quick ratio is the same as current ratio.

Gearing ratio and net debt to equity ratio

As at 31 December 2016, our Group has an amount due to shareholders of RMB1.7 million and a gearing ratio of 1.7%. However, our Group as a net cash position as at 31 December 2016, hence, net debt to equity ratio was not applicable as at such date.

As at 31 December 2017 and 2018 and 30 September 2019, our Group did not have any borrowings as at each reporting date. Thus, neither the gearing ratio nor the net debt to equity ratio was applicable to our Group as at respective dates.

FINANCIAL INFORMATION

SENSITIVITY AND BREAKEVEN ANALYSIS

Sensitivity analysis

During the Track Record Period, our largest operating cost components included (i) cost of sales; and (ii) employee benefit expenses (including Directors' remuneration). These two largest operating cost components amounted to RMB83.8 million, RMB105.5 million, RMB90.8 million and RMB114.3 million for FY2016, FY2017, FY2018 and 9M2019, representing 60.0%, 61.8%, 63.5% and 66.9% of our revenue of RMB139.8 million, RMB170.7 million, RMB143.0 million and RMB170.8 million for the same year/period, respectively. Any material fluctuation in these operating cost components may affect the results of our operations.

The following table sets forth the sensitivity analysis on our major operating cost components, based on the hypothetical fluctuations of 5% and 10%, respectively, and their effects on our Group's profit before income tax for each of the FY2016, FY2017, FY2018 and 9M2019 with all other variables held constant:

		FY2016	FY2017	FY2018	9M2019
	Increase/ (decrease) in percentage	(Decrease)/ increase in profit before tax	(Decrease)/ increase in profit before tax	(Decrease)/ increase in profit before tax	(Decrease)/ increase in profit before tax
		RMB'000	RMB '000	RMB'000	RMB'000
Cost of sales	5%	(3,733)	(4,695)	(4,033)	(5,400)
	(5)%	3,733	4,695	4,033	5,400
	10%	(7,466)	(9,390)	(8,066)	(10,800)
	(10)%	7,466	9,390	8,066	10,800
Employee benefit expenses	5%	(459)	(580)	(509)	(315)
	(5)%	459	580	509	315
	10%	(918)	(1,159)	(1,018)	(630)
	(10)%	918	1,159	1,018	630

Breakeven analysis

For FY2016, our Group would record breakeven in profit before income tax, if, holding all other variables constant, with an increase in (i) cost of sales by approximately 65.4%; or (ii) employee benefit expenses by approximately 532.4%.

For FY2017, our Group would record breakeven in profit before income tax, if, holding all other variables constant, with an increase in (i) cost of sales by approximately 65.2%; or (ii) employee benefit expenses by approximately 528.5%.

FINANCIAL INFORMATION

For FY2018, our Group would record breakeven in profit before income tax, if, holding all other variables constant, with an increase in (i) cost of sales by approximately 72.8%; or (ii) employee benefit expenses by approximately 576.5%.

For 9M2019, our Group would record breakeven in profit before income tax, if, holding all other variables constant, with an increase in (i) cost of sales by approximately 38.8%; or (ii) employee benefit expenses by approximately 408.4%.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

We are exposed to a variety of financial risk, such as market risk (including foreign exchange risk, cash flow and fair value interest rate risk), credit risk and liquidity risk.

Credit risk

We mainly transact with creditworthy third parties. Receivable balances are monitored on an ongoing basis.

Maximum exposure and year-end staging as at 31 December 2018 and 30 September 2019

The table below shows the credit quality and the maximum exposure to credit risk based on our credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end/period-end staging classification as at 31 December 2018 and 30 September 2019. The amounts presented are gross carrying amounts for financial assets.

	<u>12-month ECLs</u>	<u>Lifetime ECLs</u>	
	<u>Stage 1</u>	<u>Simplified approach</u>	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
As at 31 December 2018			
Trade receivables*	–	44,866	44,866
Financial assets included in prepayments, deposits and other receivables			
- Normal **	12,087	–	12,087
Due from shareholders			
- Not yet past due	13,637	–	13,637
Cash and cash equivalents			
- Not yet past due	89,270	–	89,270
	<u>114,994</u>	<u>44,866</u>	<u>159,860</u>

FINANCIAL INFORMATION

	12-month ECLs	Lifetime ECLs	
	Stage 1	Simplified approach	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
As at 30 September 2019			
Trade receivables*	—	100,738	100,738
Financial assets included in prepayments, deposits and other receivables			
- Normal **	32,006	—	32,006
Due from shareholders			
- Not yet past due	13,589	—	13,589
Cash and cash equivalents			
- Not yet past due	27,610	—	27,610
	<u>73,205</u>	<u>100,738</u>	<u>173,943</u>

* For trade receivables to which we applied the simplified approach for impairment, information based on the provision matrix is disclosed in note 15 to the Accountants' Reports, the text of which is set out in Appendix I to this prospectus.

** The credit quality of the financial assets included in prepayments, deposits and other receivables is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition.

Maximum exposure as at 31 December 2016 and 2017

The credit risk of our financial assets, which comprise trade receivables, deposits and other receivables, amounts due from shareholders, financial assets at fair value through profit or loss and cash and cash equivalents, arises from default of the counterparties, with a maximum exposure equal to the carrying amounts of these instruments.

At the end of each of the Relevant Periods, we had certain concentrations of credit risk as 79%, 55%, 44%, and 34%, and 88%, 80%, 71% and 73% of our trade receivables as at 31 December 2016, 2017 and 2018 and 30 September 2019, were due from our largest debtor and the three largest debtors, respectively.

Details of the above and other risk to which we are exposed are set out in note 33 to the Accountants' Reports, the text of which is set out in Appendix I to this prospectus.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors confirm that as at the Latest Practicable Date, there were no circumstances that would give rise to the disclosure requirements under Rules 13.13 to 13.19 of the Listing Rules.

FINANCIAL INFORMATION

LISTING EXPENSES

Our Directors are of the view that our financial results for the year ended 31 December 2019 are expected to be adversely affected by the Listing expenses in relation to the Global Offering, the nature of which is non-recurring. The total Listing fees in relation to the Global Offering, primarily consisting of fees paid or payable to professional parties and underwriting fees and commission, are estimated to be approximately RMB65.1 million (based on the mid-point of the indicative Offer Price range of HK\$1.65 (equivalent to approximately RMB1.42) per Offer Share and 126,000,000 Offer Shares). Among the estimated total Listing fees, (i) approximately RMB37.3 million is expected to be accounted for as a deduction from equity upon Listing; and (ii) approximately RMB27.8 million is expected to be recognised as expenses in our combined statements of comprehensive income, of which approximately RMB18.7 million had been recognised during the Track Record Period and the remaining of approximately RMB8.8 million is expected to be recognised after the Track Record Period and during the year ending 31 December 2020.

Our Directors would like to emphasise that the amount of the Listing expenses is a current estimate for reference only and the final amount to be recognised in the combined financial statements of our Company after the Track Record Period and for the year ended 31 December 2019 is subject to adjustment based on audit and the then changes in variables and assumptions.

Prospective investors should note that the financial performance of our Group for the year ended 31 December 2019 is expected to be adversely affected by the estimated non-recurring Listing expenses mentioned above, and may or may not be comparable to the financial performance of our Group in the past.

DIVIDEND AND DIVIDEND POLICY

Our Company is a holding company incorporated under the laws of the Cayman Islands. As a result, our Company's ability to declare and pay dividends will depend on receipt of sufficient funds from the WFOE and our Consolidated Affiliated Entities, which are incorporated in the PRC. As advised by our PRC Legal Advisers, according to the relevant PRC laws and regulations, a PRC company is required to set aside as general reserves at least 10% of its after-tax profit, until the cumulative amount of such reserves reaches 50% of its registered capital unless the provisions of laws regarding foreign investment otherwise provided.

FINANCIAL INFORMATION

We currently aim to pay a total dividend in respect of each of financial year of not less than 30% of our distributable profits for the corresponding financial year, subject to the Articles of Association, the Cayman Islands Companies Law and other applicable laws and regulations, as well as factors and considerations set out below. We cannot assure you that we will be able to distribute dividend of the above amount or any amount or at all, in any particular financial year.

Our Directors shall also take into account the following factors of our Group when considering the declaration and payment of dividends, including operation, earning, financial performance, cash requirements and availability, capital expenditure, business conditions and strategies, future development requirements, legal restrictions, loans or other agreements that we may have enter into in the future, and any other factors that may be considered relevant as such time. Any future declarations of dividends may or may not reflect our historical declarations of dividend and will be at the absolute discretion of our Directors.

No dividend has been paid or declared by our Company since its date of incorporation. During FY2016, FY2017, FY2018 and 9M2019, we declared dividends of nil, RMB65.1 million, RMB46.5 million and nil, respectively, to our then shareholders, among which RMB9.5 million was unpaid as at the Latest Practicable Date. We will settle such unpaid dividend before Listing.

Please also see the sections headed “Risk Factors — Risks Relating to Conducting Business in the PRC — Fluctuations in the value of the Renminbi and other currencies may have a material adverse impact on your investment”, “Risk Factors — Risks Relating to Conducting Business in the PRC — the PRC government’s control of foreign currency conversion may limit our foreign exchange transactions, including dividend payments on our Shares”, and “Regulatory Overview — The Principal Laws and Regulations Related to Dividend Distribution” of this prospectus for details.

DISTRIBUTABLE RESERVES

Our Company was incorporated on 5 February 2018 and is an investment holding company. There were no reserves available for distribution to the Shareholders as at the Latest Practicable Date.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

Please see the section headed “Unaudited Pro Forma Financial Information” in Appendix IIA to this prospectus for our unaudited pro forma adjusted combined net tangible assets.

FINANCIAL INFORMATION

PROFIT ESTIMATE FOR THE YEAR ENDED 31 DECEMBER 2019

Estimated consolidated profit attributable

to owners of our Company (*Note 1*) not less than RMB37.2 million

Notes:

- (1) The bases on which the above profit estimate for the year ended 31 December 2019 has been prepared are summarised in Appendix IIB to this prospectus. Our Directors have prepared the estimated consolidated profit attributable to owners of our Company for the year ended 31 December 2019 based on (i) the audited consolidated results of our Group for the nine months ended 30 September 2019; and (ii) the unaudited consolidated results based on management accounts of our Group for the three months ended 31 December 2019.
- (2) The estimated consolidated results of our Group for the year ended 31 December 2019 has taken into account the expected Listing expenses to be incurred during the year ended 31 December 2019 of approximately RMB8.8 million. Had the effect of such expected Listing expenses not been taken into account, the estimated consolidated results of our Group and attributable to the owners of the Company for the year ended 31 December 2019 would have been approximately RMB50.0 million and RMB46.0 million, respectively.

POST BALANCE SHEET EVENTS

Please see to the section headed “Summary and Highlights — Recent Development” of this prospectus and note 34 of the Accountants’ Reports in Appendix I to this prospectus for details. Our Directors expect that there would be a material increase in the amount of licensing fees to be incurred for the coming years as a result of our future strategy to obtain licensing rights of additional single-player mobile games to expand game portfolio as well as obtaining the licensing rights of entertainment properties for development of boutique games. In addition, increased costs are expected to be incurred in respect of higher research and development expenses for multi-player mobile games, which would be part of our future strategy. For further details, please see “Business — Business strategies”.

RECENT DEVELOPMENTS

Please see the section headed “Summary and Highlights — Recent Development” of this prospectus for details.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

Please see the section headed “Business – Business Strategies” of this prospectus for a detailed description of our future plans.

USE OF EXISTING CASH AND CASH EQUIVALENTS AND REASONS FOR LISTING

Reasons for Listing

We believe that the Listing represents an important step to implement our business strategies as it enables our Group to (i) gain direct access to the capital market for cost effective capital raising for future expansion and corporate finance exercises; and (ii) gain recognition and corporate stature through the listing status and further enhance our corporate reputation which assist in expanding our supplies network including distribution channel provider and third-party content provider. Our Directors recognized that, as a digital entertainment content provider in the PRC, our Group’s presence in capital markets could create a higher level of visibility for our Group among various investors. More importantly, our Directors believe that access to a wider funding platform will underpin our Group’s future sustainable growth by providing us with diversified means to fund our future expansion plans. The sole reliance on internal funding will, in the view of our Directors, impose constraints on our business strategies. It is therefore of utmost importance to us to obtain sufficient funding in order to cope with future expansion and further grow our business.

(A) Further details of our future development and our Group’s plan to maintain our competitiveness

According to the Frost & Sullivan Report, the key competitiveness of pan-entertainment industry content provider including our Group, as a digital entertainment content provider, relies on its ability to introduce new technology such as VR and AR, quality of mobile applications and more resources to enable a longer research and development for increasingly sophisticated games. To do so, it is necessary for our Group to maintain our competitiveness by sharpening the bargaining powers with suppliers and business partners, as well as to secure sufficient resources for developing games and/or obtaining licensing rights of popular games and entertainment properties, which is critical as part of our Group’s future development. With the stronger financial resources after Listing, we would be able to spend more resources in developing more sophisticated games. Further, we believe that our business partners, such as distribution channel providers, IP owners and other business partners, would be more willing to cooperate with us at a more favorable commercial terms. We would be in a better position to secure for new business opportunities when we have a higher capacity.

FUTURE PLANS AND USE OF PROCEEDS

(B) Funding needs for implementing our business strategies

Given the continuing expansion plans of our Group, our Directors believe that there is a genuine funding need to support our expansion plan through the Listing. Our Company required an average of RMB7.6 million, RMB9.5 million, RMB8.2 million and RMB13.2 million per month for FY2016, FY2017, FY2018 and 9M2019 to cover our cost of sales, selling and distribution expenses, administrative expenses and research and development expenses. As part of our plan to expand our game portfolio, we incurred RMB20.0 million during the Track Record Period as deposit to two distribution channel providers for distribution of two of our new licensed multi-player mobile games.

As part of our Group's business strategies, our Group has been moving towards development and/or operation of more sophisticated mobile games, such as boutique mobile games and multi-player mobile game. Despite our Group has been well-established in the casual mobile games markets, we are relatively new in the market of boutique games and multi-player games. We commenced the development and operation of boutique mobile games in FY2017 and the operation of multi-player mobile games since November 2018. According to the Frost & Sullivan Report, it is an industry norm for the distribution channel providers to request for deposit/guarantee from game developers and operators who have less experience in the types of game which they operate in. In this connection, our Group was required to pay a deposit of RMB20.0 million to each of the two distribution channel providers in respect of the distribution of the two new licensed multi-player mobile games launched in January and June 2019, respectively. We made total payments of RMB20.0 million in December 2018 and June 2019. For details, please see the section headed "Business — Game Monetization — Game pipeline" of this prospectus for details. We also made deposit in the aggregate amount of RMB10.0 million to licensors in respect of obtaining the licensing rights of 19 licensed mobile games in January and February 2019. According to the Frost & Sullivan Report, the average price for obtaining licensing rights of licensed games rose during 2018, as more game developers and operators were seeking to obtain the licensing rights of these licensed games in view of the Temporary Suspension. As a result, the price for the licensing rights of mobile games have surged in response to the increase in demand, whilst the supply of new mobile games halted as a result of the Temporary Suspension. In spite of the resumption of the approval process in December 2018, the approval process remained static and the price for the licensing rights of the licensed games is expected to remain at similar level.

The Listing would also provide us with a long-term fund raising platform to raise funds through secondary fund raising exercise after the Listing and enable our Company to offer an equity based incentive program (such as the Share Option Scheme) to our employees that more directly correlates with their performance and which can be used to better motivate the employees and foster a team of enthusiastic staff. Therefore, our Directors believe that the Listing will be beneficial to our Group. Without the proceeds from the Global Offering, we will not be able to fund our expansion plans. For further details of our Business strategies, please see the section headed "Business — Business Strategies" of this prospectus.

FUTURE PLANS AND USE OF PROCEEDS

Our current available cash resources

As at 31 December 2016, 2017, 2018 and 30 September 2019, our bank balances and cash, which represents our immediately available working capital, amounted to approximately RMB14.6 million, RMB105.7 million, RMB89.3 million and RMB27.6 million. Although as at 31 December 2019, our cash and cash equivalent amounted to approximately RMB50.9 million and we have an amount due from shareholders amounting to RMB13.2 million which is expected to be settled before Listing, after considering our expected expenditure and expenses, our Directors are of the view that there are insufficient financial resources to cover our funding needs and therefore the net proceeds from the Global Offering are necessary for the successful implementation of our future plans.

The aggregate amount of our cash and cash equivalent and amount due from shareholders amounted to only approximately RMB45.9 million as at 31 December 2019 after deducting dividends payable of approximately RMB9.5 million (which will be settled before Listing), and Listing expenses of approximately RMB8.7 million before Listing. Our monthly average cost of sales, selling and distribution expenses, administrative expenses and research and development expenses for 9M2019 amounted to approximately RMB13.2 million per month. The aggregate amount of our cash and cash equivalent and amount due from shareholders is only sufficient to support our average cost and expenses for approximately four months. Our average turnover days of trade receivables were 317 days, 201 days, 132 days and 109 days for FY2016, FY2017, FY2018 and 9M2019, and our average turnover days of trade payables were 219 days, 175 days, 117 days and 50 days for FY2016, FY2017, FY2018 and 9M2019 respectively which is shorter than our trade receivable turnover days for the corresponding year/period. As such, our Group has a clear need to maintain sufficient amount of cash to ensure that we would be able to settle our trade receivables in time. If our settlement agents delay in settlement of our bills (which our Group has experienced such situation where China Mobile Internet and/or its affiliates, which acted as our major settlement agent and distribution channel provider for our mobile games and digital media during FY2016, FY2017, FY2018 and 9M2019, has delayed in settlement of our trade receivables as at 30 September 2019 due to its upgrade of the settlement platforms), we may experience cash flow mismatch associated with the receipt of settlements from the settlement agents and payments to suppliers. Furthermore, we recorded net operating cash outflow of RMB96.8 million in 9M2019, mainly attributable to the increase in deposits paid to distribution channel providers and to licensors for obtaining licensing rights and the increase in trade receivables due to delay in settlement from China Mobile Internet and/or its affiliates. In addition, our Group would also need to allocate an amount of approximately HK\$19.0 million (equivalent to approximately RMB15.5 million) to satisfy the repayment to the Pre-IPO Investor in case the Listing does not materialize prior to 30 June 2020. Our Company will also adopted a dividend policy with a pre-determined payout ratio of not less than 30%, which necessitates the need to allocate certain level of cash for future dividend payment.

FUTURE PLANS AND USE OF PROCEEDS

From a prudent financial management perspective, our Directors consider that our Group should constantly maintain a sufficient amount of immediately available working capital for meeting the payment obligations arising from our daily operations and our liquidity needs in case of unforeseen circumstances. Our Directors consider that the amount of our cash and cash equivalent may fluctuate from time to time, depending on among others, the schedule of the game launch, timing of the payment of costs and other expenses as well as the receipt of the relevant income from the settlement agent. The fluctuation in the cash and cash equivalent balance also reflects mismatch in cash receipt and settlement of payables such as obligations to pay the suppliers and various services providers.

Based on the above and taking into consideration our current scale of operations and the costs incurred by us during the Track Record Period as well as the games in the pipeline, our Directors are of the view that our Group's cash position is not excessive.

In addition to the above, our Directors believe that the Listing support our Group's long-term business strategies and business expansion:

- **gain access to capital market:** the Listing will broaden our shareholder base and enhance our access to capital for future growth with opportunities to raise funds not only from the Listing but also at a later stage. Furthermore, our Directors have considered debt financing from banks to fund our future business growth, but given the low loan principal and short term of repayment offered by the bank, our Directors are of the view debt financing cannot support our long-term business strategies and that fund-raising through initial public offering will increase our financial strength;
- **enhance our profile, visibility and our market presence:** we believe that our suppliers prefer working with business partners which are listed companies given the favorable reputation, corporate governance and transparent results of operation. By way of the Listing, we can elevate our corporate image and status and strengthen confidence of our players, users of digital media content and suppliers, which may in turn increase our bargaining power when we seek new business opportunities with our suppliers;
- **enhance our corporate governance and operational efficiency:** we believe that our corporate governance and operational efficiency will be improved through compliance with standards of transparency and disclosure which would further enhance our risk management and internal control; and
- **enhance employee loyalty and incentive:** human resources and talent are important to our business. Our Directors believe the status of a listed company could enable us to increase employee loyalty and attract, recruit and retain valued management personnel and skilled talents through additional incentives such as Share Option Scheme.

FUTURE PLANS AND USE OF PROCEEDS

USE OF PROCEEDS

We estimate the net proceeds of the Global Offering (the “**Net Proceeds**”) which we will receive, assuming an Offer Price of HK\$1.65 per Offer Share (being the mid-point of the Offer Price range stated in this prospectus), will be approximately HK\$132.4 million, after deduction of underwriting fees and commissions and other estimated expenses in connection with the Global Offering assuming the Over-allotment Option is not exercised. We intend to use the net proceeds of the Global Offering for the following purposes:

- (1) approximately HK\$32.2 million representing approximately 24.3% of the Net Proceeds, will be used to expand our market share in single-player mobile games with a strategic focus on boutique games, of which:
 - (i) approximately HK\$22.8 million, representing approximately 17.2% of the Net Proceeds, in obtaining licensing rights of ten additional mobile games in different genre such as adventure strategy and mind challenge and endless run to expand our game portfolios;
 - (ii) approximately HK\$4.6 million, representing approximately 3.5% of the Net Proceeds, in expanding our mobile games development team by recruiting 25 research and development personnel including four at management level and intensify trainings to the research and development team members to stimulate their creative skills and enhance development efficiency;
 - (iii) approximately HK\$3.2 million, representing approximately 2.4% of the Net Proceeds, in upgrading our information technology infrastructure by implementing software upgrades such as game engines, game-designing tools and the acquisition of necessary hardware in order to accommodate the increasing technical demands for design and development purposes;
 - (iv) approximately HK\$1.6 million, representing approximately 1.2% of the Net Proceeds, in enhancing the collaboration with our suppliers and expansion of our distribution network by recruiting nine sales and marketing and operation personnel;
- (2) approximately HK\$20.4 million, representing approximately 15.4% of the Net Proceeds, will be used to expedite our multi-player mobile game market, comprising:
 - (i) approximately HK\$5.4 million, representing approximately 4.1% of the Net Proceeds, in obtaining licenses to operate new multi-player mobile games;
 - (ii) approximately HK\$4.6 million, representing approximately 3.5% of the Net Proceeds, in expanding our multi-player mobile game development team by recruiting 25 research and development personnel including four at management level;

FUTURE PLANS AND USE OF PROCEEDS

- (iii) approximately HK\$8.8 million, representing approximately 6.6% of the Net Proceeds, in upgrading the information technology infrastructure by increasing storage capacity elevating the network requirements, enhancing online server load in order to cater for the higher data storage demand of multi-player mobile games;
- (iv) approximately HK\$1.6 million, representing approximately 1.2% of the Net Proceeds, in enhancing the collaboration with our suppliers and expansion of our distribution network by recruiting eight sales and marketing and operation personnel who possess experience in the relevant areas, in particular the multi-player mobile gaming industry;
- (3) approximately HK\$26.9 million, representing approximately 20.3% of the Net Proceeds, will be used to obtain licensing rights of approximately 11 popular entertainment properties to develop boutique multi-player mobile games, in particular, to obtain licensing rights from IP owners covering both up-and-coming characters featured in animated television series or motion pictures as well as evergreen characters;
- (4) approximately HK\$1.6 million, representing approximately 1.2% of the Net Proceeds, will be used to enrich our digital media content, by obtaining licensing rights of popular and/or exclusive titles and debut offerings, broadening our mobile internet distribution channels in order to reach a wider reader base. We would expand the operation and marketing team by recruiting two additional sales and marketing and operation personnel who will be responsible for operation and liaison with the distribution channel providers and enhancement of our operation efficiency in respect of our digital media content;
- (5) approximately HK\$40.2 million, representing approximately 30.4% of the Net Proceeds, will be used for strategic acquisitions and partnerships with mobile game developers, especially those with capabilities in artwork and design or those which possess an established distribution network. In the event that the costs of such acquisitions exceed the amount of proceeds allocated, the shortfall would be funded by internal resources. As of the Latest Practicable Date, we have not identified any specific suitable target for potential acquisitions and suitable partners to form potential joint ventures;
- (6) approximately HK\$11.1 million, representing approximately 8.4% of the Net Proceeds, will be used for our general working capital purposes.

FUTURE PLANS AND USE OF PROCEEDS

Commercial rationale for the need to recruit 50 additional research and development personnel and 19 additional sales and marketing and operation personnel

As of 30 September 2019, we had a total 17 employees for research and development and four employees for sales and marketing. These employees will mostly focus on further development, maintenance and promotion of the existing 79 mobile games and the mobile games in the pipeline. It is important that we take action to keep our mobile games enticing to their existing players and to attract new players. These actions include addressing player complaints by improving game mechanics; improving design and settings of our games; updating of and/or introducing new features and content; fixing bugs, flaws, or corrupted data; and looking into the possibility in cooperating with more distribution channel providers and different payment channels.

We will recruit:

- (a) a total of 50 game research and development personnel – (i) 25 developers for the research and development of new multi-player mobile games, and carrying out tasks such as programming, purchase of new software upgrades such as game engines and game-designing tools and necessary hardware for the new multi-player mobile games; and (ii) 25 developers for the research and development of new single-player mobile games, and carrying out tasks such as the designing of attractive virtual items, the exploration of different game genres, and purchase of increased storage capacity elevating the network requirements and the enhancement of online server load in order to cater for the higher data storage demand of new single-player mobile games; and
- (b) a total of 19 sales and marketing and operation personnel – (i) for new single-player mobile games, nine personnel for enhancing the collaboration with our suppliers, expanding our distribution network, and exploring opportunities with business partners such as licensors of entertainment properties and licensing rights of mobile games and settlement agents, and for new multi-player mobile games, eight personnel will be responsible for the same types of responsibilities; and (ii) the remaining two personnel will be responsible for operation and liaison with distribution channel providers and enhancement of our operation efficiency in respect of our new digital media content.

Out of the 69 potential new recruitments, (i) we plan to hire a total of eight game developers at management level with tertiary degree and around one year to two years of management experience for multi-player mobile games and single-player mobile games; (ii) for the remaining 42 game developers, we plan to hire game developers with a minimum of one year of relevant working experience to assist in development of multi-player mobile games and single-player mobile games; (iii) we plan to hire 17 sales and marketing and operation

FUTURE PLANS AND USE OF PROCEEDS

personnel with a minimum of one year of relevant working experience in collaborating with suppliers and expanding distribution network for mobile games; and (iv) we plan to hire two sales and marketing and promotion personnel with a minimum of one year of relevant working experience in operating and liaising with distribution channel providers in respect of new digital media content such as new e-magazines.

For the new mobile games, we plan to develop around four to six new multi-player mobile games and 12 to 16 new single-player boutique mobile games by the end of 2021. For the development of each multi-player mobile game, we generally require a team of eight to nine research and development personnel to carry out different work streams from research and field study, designing, programming and coding to testing, modification, and ongoing support and maintenance (the “**R&D Tasks**”), and we expect a total of nine additional sales and marketing operation personnel to explore opportunities with possible business partners such as distribution channel providers, payment channels and licensors of entertainment properties and licensing rights of mobile games (the “**Sales and Marketing and Operations Tasks**”) for the abovementioned four to six new multi-player mobile games. For the development of each single-player mobile game, we generally require a team of eight to nine developers to carry out the R&D Tasks, and we expect a total of eight additional sales and marketing operation personnel for the Sales and Marketing and Operations Tasks for the abovementioned 12 to 16 new single-player mobile games.

Assuming the development cycle of each new multi-player mobile game and new single-player mobile game is around six months to twelve months and three months, respectively, we estimate that each team will be able to develop one to two multi-player mobile games and four single-player mobile game every year. The number of potential new recruitments beyond 2021 are estimated based on the number of new mobile games that we plan to develop and may be adjusted according to the capacity of our employees and the actual pace of the development of our mobile games.

For the new digital media content, we plan to hire two additional sales and marketing and operation personnel before the end of 2021 to be responsible for operation and liaison with the distribution channel providers and enhancement of our operation efficiency.

The above allocation of the proceeds will be adjusted on a pro rata basis in the event that the Offer Price is fixed at a higher or lower level compared to the midpoint of the proposed Offer Price range. If the Offer Price is fixed at HK\$1.80 per Offer Share (being the high end of the Offer Price range stated in this prospectus), we will receive additional net proceeds of approximately HK\$16.1 million, assuming the Over-allotment Option is not exercised.

FUTURE PLANS AND USE OF PROCEEDS

If the Offer Price is fixed at HK\$1.50 per Offer Share (being the low end of the Offer Price range states in this prospectus), the net proceeds we receive will be reduced by approximately HK\$16.1 million, assuming the Over-allotment Option is not exercised.

If we make a Downward Offer Price Adjustment, the estimated net proceeds we will receive from the Global Offering will be further reduced. Under such circumstances, we will decrease the allocation of such net proceeds to the above purposed on a pro-rata basis.

To the extent our net proceeds are either more or less than expected, we intend to apply the net proceeds to the above uses in the proportion stated above. If we make a Downward Offer Price Adjustment to set the final Offer Price at HK\$1.35 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\$16.1 million. To the extent our net proceeds are further reduced, we intend to apply the net proceeds to the above uses in the proportion stated above.

In the event that the Over-allotment Option is exercised in full, we will receive additional net proceeds ranging from approximately HK\$26.9 million (assuming an Offer Price of HK\$1.50 per Share, being the low end of the proposed Offer Price range) to HK\$32.3 million (assuming an Offer Price of HK\$1.80 per Share, being the high end of the proposed Offer Price range), after deduction of underwriting fees and commissions and estimated expenses payable by us in connection with the Global Offering. We intend to apply the additional net proceeds to the above uses in the proportions stated above.

To the extent that the net proceeds are not immediately applied to the above purposes and to the extent permitted by applicable law and regulations, we intend to deposit the net proceeds into short-term demand deposits and/or money market instruments. We will make an appropriate announcement if there is any change to the above proposed use of proceeds.

UNDERWRITING

HONG KONG UNDERWRITERS

Joint Global Coordinators

Elstone Securities Limited
Lego Securities Limited
Guosen Securities (HK) Capital Company Limited

Joint Bookrunners

Elstone Securities Limited
Lego Securities Limited
Guosen Securities (HK) Capital Company Limited
Alpha Financial Group Limited
BOCOM International Securities Limited
China Tonghai Securities Limited
CMBC Securities Company Limited
Essence International Securities (Hong Kong) Limited
Great Roc Capital Securities Limited

Joint Lead Managers

Elstone Securities Limited
Lego Securities Limited
Guosen Securities (HK) Capital Company Limited
Alpha Financial Group Limited
BOCOM International Securities Limited
China Tonghai Securities Limited
CMBC Securities Company Limited
Essence International Securities (Hong Kong) Limited
Great Roc Capital Securities Limited
Conrad Investment Services Limited
Lee Go Securities Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offering

Hong Kong Underwriting Agreement

The Hong Kong Underwriting Agreement was entered into on 26 February 2020. As described in the Hong Kong Underwriting Agreement, we are offering the Hong Kong Offer Shares for subscription on the terms and subject to the conditions of this prospectus and the Application Forms at the Offer Price. Subject to the Listing Committee granting the listing of, and permission to deal in, our Shares in issue and to be issued as mentioned herein, and to

UNDERWRITING

certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have agreed severally to apply to subscribe or procure applications to subscribe the Hong Kong Offer Shares which are being offered but are not taken up under the Hong Kong Public Offering on the terms and conditions of this prospectus, the Application Forms and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional upon and subject to, among other things, the International Underwriting Agreement having been signed and becoming unconditional and not having been terminated in accordance with its terms or otherwise, prior to 8:00 a.m. on the Listing Date.

Grounds for termination

The obligations of the Hong Kong Underwriters to subscribe or procure subscribers for the Hong Kong Offer Shares under the Hong Kong Underwriting Agreement will be subject to termination with immediate effect by notice in writing to the Company from the Joint Global Coordinators, for themselves and on behalf of the Hong Kong Underwriters, if prior to 8:00 a.m. on the Listing Date:

- (a) there has come to the notice of the Joint Global Coordinators:
 - (i) that any statement contained in any of this prospectus, the Application Forms, the Formal Notice (collectively, the “**Offer Documents**”) and/or notices, announcements, advertisements, communications or other documents issued or used by or on behalf of our Company in connection with the Global Offering (including any supplement or amendments thereto) (collectively, the “**Relevant Documents**”) was, when it was issued, or has become, untrue, incorrect, misleading or deceptive in any respect or that any forecast, expression of opinion, intention or expectation expressed in any of the Relevant Documents is not, in the sole and absolute opinion of the Joint Global Coordinators (for themselves and on behalf of the other Underwriters), fair and honest and based on reasonable assumptions, when taken as a whole; or
 - (ii) that any matter has arisen or has been discovered which would or might, had it arisen or been discovered immediately before the respective dates of the publication of the Relevant Documents, constitute an omission therefrom; or
 - (iii) any breach of any of the obligations imposed or to be imposed upon any party to the Hong Kong Underwriting Agreement or the International Underwriting Agreement (in each case, other than on the part of any of the Underwriters); or
 - (iv) any event, act or omission which gives or is likely to give rise to any liability of any of our Company, our executive Directors, and our Controlling Shareholders (the “**Warrantors**”) in the Hong Kong Underwriting Agreement or under the International Underwriting Agreement; or

UNDERWRITING

- (v) any change or development involving a prospective adverse change in the assets, liabilities, general affairs, management, business prospects, shareholders' equity, profits, losses, results of operations, position or conditions (financial, trading or otherwise) or performance of any member of our Group; or
- (vi) any breach of, or any event or circumstance rendering untrue or incorrect in any respect, any of the warranties; or
- (vii) the approval by the Listing Committee of the Stock Exchange of the listing of, and permission to deal in, our Shares (including any additional Shares that may be issued upon the exercise of the Over-allotment Option) is refused or not granted, or is qualified (other than subject to customary conditions), on or before the Listing Date, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or
- (viii) our Company withdraws any of the Relevant Documents or the Global Offering; or
- (ix) any person (other than the Hong Kong Underwriters) has withdrawn or sought to withdraw its consent to being named in any of the Offer Documents or to the issue of any of the Offer Documents; or
- (x) that a petition or an order is presented for the winding-up or liquidation of any member of our Group or any member of our 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 our Group or a provisional liquidator, receiver or manager is appointed to take over all or part of the assets or undertaking of any member of our Group or anything analogous thereto occurs in respect of any member of our Group; or
- (xi) an authority or a political body or organization in any relevant jurisdiction has commenced any investigation or other action, or announced an intention to investigate or take other action, against any of the Directors and senior management members of our Group as set out in the section head "Directors and Senior Management" of this prospectus; or

UNDERWRITING

- (xii) a portion of the orders in the book building process, which is considered by the Joint Global Coordinators (for themselves and on behalf of the other Hong Kong Underwriters) in their absolute opinion to be material, at the time the International Underwriting Agreement is entered into, or the investment commitments by any cornerstone investors after signing of agreements with such cornerstone investors, have been withdrawn, terminated or canceled, and the Joint Global Coordinators, in their sole and absolute discretion, conclude that it is therefore inadvisable or inexpedient or impracticable to proceed with the Global Offering; or
 - (xiii) any loss or damage has been sustained by any member of our Group (howsoever caused and whether or not the subject of any insurance or claim against any person) which is considered by the Joint Global Coordinators (for themselves and on behalf of the other Underwriters) in their sole and absolute opinion to be material; or
- (b) there shall develop, occur, exist or come into effect:
- (i) any local, national, regional, international event or circumstance, or series of events or circumstances, beyond the reasonable control of the Underwriters (including, without limitation, any acts of government or orders of any courts, strikes, calamity, crisis, lock-outs, fire, explosion, flooding, civil commotion, acts of war, outbreak or escalation of hostilities (whether or not war is declared), acts of God, acts of terrorism, declaration of a local, regional, national or international emergency, riot, public disorder, economic sanctions, outbreaks of diseases, pandemics or epidemics (including, without limitation, Coronavirus, Severe Acute Respiratory Syndrome, avian influenza A (H5N1), Swine Flu (H1N1), Middle East Respiratory Syndrome or such related or mutated forms) or interruption or delay in transportation); or
 - (ii) any change or development involving a prospective change, or any event or circumstance or series of events or circumstances likely to result in any change or development involving a prospective change, in any local, regional, national, international, financial, economic, political, military, industrial, fiscal, legal regulatory, currency, credit or market conditions (including, without limitation, conditions in the stock and bond markets, money and foreign exchange markets, the interbank markets and credit markets); or
 - (iii) any moratorium, suspension or restriction on trading in securities generally (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) on the Stock Exchange, the New York Stock Exchange, the London Stock Exchange, the NASDAQ Global Market, the Shanghai Stock Exchange, the Shenzhen Stock Exchange and the Tokyo Stock Exchange; or

UNDERWRITING

- (iv) any new law(s), rule(s), statute(s), ordinance(s), regulation(s), guideline(s), opinion(s), notice(s), circular(s), order(s), judgment(s), decree(s) or ruling(s) of any governmental authority (“**Law(s)**”), or any change or development involving a prospective change in existing Laws, or any event or circumstance or series of events or circumstances likely to result in any change or development involving a prospective change in the interpretation or application of existing Laws by any court or other competent authority, in each case, in or affecting any of Hong Kong, the PRC, the United States, the Cayman Islands, BVI, the European Union (or any member thereof) or any other jurisdictions relevant to any member of our Group or the Global Offering (the “**Specific Jurisdictions**”); or
- (v) any general moratorium on commercial banking activities, or any disruption in commercial banking activities, foreign exchange trading or securities settlement or clearance services or procedures or matters, in or affecting any of the Specific Jurisdictions; or
- (vi) the imposition of economic sanctions, in whatever form, directly or indirectly, by or for any of the Specific Jurisdictions; or
- (vii) a change or development involving a prospective change in or affecting taxation or exchange control (or the implementation of any exchange control), currency exchange rates or foreign investment Laws (including, without limitation, any change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States or a material fluctuation in the exchange rate of the Hong Kong dollar or the RMB against any foreign currency) in or affecting any of the Specific Jurisdictions or affecting an investment in our Shares; or
- (viii) any change or development involving a prospective change, or a materialization of, any of the risks set out in the section headed “Risk Factors” of this prospectus; or
- (ix) any litigation or claim of any third party being threatened or instigated against any member of our Group or any of the Warrantors; or
- (x) any of our Directors and senior management members of our Company as set out in the section headed “Directors and Senior Management” of this prospectus being charged with an indictable offense or prohibited by operation of Law or otherwise disqualified from taking part in the management of a company; or
- (xi) our Chairman or chief executive officer of our Company vacating his or her office; or

UNDERWRITING

- (xii) the commencement by any governmental, regulatory or political body or organization of any action against a Director in his or her capacity as such or an announcement by any governmental, regulatory or political body or organization that it intends to take any such action; or
- (xiii) a contravention by any member of our Group or any Director of the Listing Rules, the Companies Ordinance or any other Laws applicable to the Global Offering; or
- (xiv) a prohibition on our Company for whatever reason from allotting, issuing or selling the Offer Shares and/or the Over-allotment Shares pursuant to the terms of the Global Offering; or
- (xv) non-compliance of this prospectus and the other Relevant Documents or any aspect of the Global Offering with the Listing Rules or any other Laws applicable to the Global Offering; or
- (xvi) the issue or requirement to issue by our Company of a supplement or amendment to this prospectus and/or any other documents in connection with the Global Offering pursuant to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Listing Rules or any requirement or request of the Stock Exchange and/or SFC; or
- (xvii) a valid demand by any creditor for repayment or payment of any indebtedness of any member of our Group or in respect of which any member of our Group is liable prior to its stated maturity,

which in each case individually or in aggregate in the sole and absolute opinion of the Joint Global Coordinators (for themselves and on behalf of the other Hong Kong Underwriters):

- (a) has or is or will or may or could be expected to have an adverse effect on the assets, liabilities, business, general affairs, management, shareholders' equity, profits, losses, results of operation, financial, trading or other condition or prospects or risks of our Company or our Group or any member of our Group or on any present or prospective shareholder of our Company in his, her or its capacity as such; or
- (b) has or will or may have or could be expected to have an adverse effect on the success, marketability or pricing of the Global Offering or the level of applications under the Hong Kong Public Offer or the level of interest under the International Placing; or

UNDERWRITING

- (c) makes or will make or may make it inadvisable, inexpedient or impracticable for any part of the Hong Kong Underwriting Agreement or the Global Offering to be performed or implemented or proceeded with as envisaged or to market the Global Offering or shall otherwise result in an interruption to or delay thereof; or
- (d) has or will or may have the effect of making any part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or which prevents the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof.

Undertakings to the Stock Exchange pursuant to the Listing Rules

Undertakings by our Company

Pursuant to Rule 10.08 of the Listing Rules, except pursuant to the Global Offering (including pursuant to the Over-allotment Option) or any issue of shares or securities in circumstances prescribed by Rule 10.08 of the Listing Rules, we have undertaken to the Stock Exchange that we will not, at any time within six months from the Listing Date, issue any shares or other securities convertible into our equity securities or enter into any agreement or arrangement to issue such shares or securities (whether or not such issue of shares or securities will be completed within six months from the Listing Date).

Undertakings by our Controlling Shareholders

Pursuant to Rule 10.07 of the Listing Rules, each of our Controlling Shareholders has undertaken to us and to the Stock Exchange, except pursuant to the Global Offering (including pursuant to the Over-allotment Option) or pursuant to any lending of Shares by each of our Controlling Shareholders pursuant to the Stock Borrowing Agreement, that he or it will not, and shall procure that any other registered holder(s) (if any) will not, without the prior written consent of the Stock Exchange or unless otherwise in compliance with applicable requirements of the Listing Rules:

- (a) in the period commencing on the date of this prospectus and ending on the date which is six months from the Listing Date (“**First Six-month Period**”), dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of our Shares in respect of which he, she or it is shown by this prospectus to be the beneficial owner (as defined in Rule 10.07(2) of the Listing Rules) (the “**Relevant Shares**”); or

UNDERWRITING

- (b) during the period of six months commencing on the date on which the First Six-month Period expires (“**Second Six-month Period**”), dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Relevant Shares to such an extent that immediately following such disposal, or upon the exercise or enforcement of such options, rights, interests or encumbrances, he, she or it would cease to be a group of controlling shareholder (as defined in the Listing Rules of our Company).

Further, pursuant to Note (3) to Rule 10.07(2) of the Listing Rules, each of our Controlling Shareholders has undertaken to us and to the Stock Exchange that, during the First Six-month Period and the Second Six-month Period, he, she or it will:

- (a) if he, she or it pledges or charges any of our securities beneficially owned by him, her or it in favor of an authorized institution (as defined in the Banking Ordinance, Chapter 155 of the Laws of Hong Kong) for a bona fide commercial loan, immediately inform us of such pledge or charge together with the number of securities so pledged or charged; and
- (b) if he, she or it receives indications, either verbal or written, from the pledgee or chargee that any of our pledged or charged securities will be disposed of, immediately inform us of such indications.

We will also inform the Stock Exchange as soon as we have been informed of the above matters, if any, by any of our Controlling Shareholders and disclose such matters in accordance with the publication requirements under Rule 2.07C of the Listing Rules as soon as possible after being so informed.

Undertakings to the Hong Kong Underwriters pursuant to the Hong Kong Underwriting Agreement

Undertakings by us

Pursuant to the Hong Kong Underwriting Agreement, we have undertaken to the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, and, the Hong Kong Underwriters that except for the offer and sale of the Offer Shares pursuant to the Global Offering (including pursuant to the exercise of the Over-allotment Option) and issue of Shares pursuant to the Capitalization Issue and the Share Option Scheme, during the First Six-Month Period, we will not, and will procure each member of our Group not to, without the prior written consent of the Sole Sponsor and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and unless in compliance with the Listing Rules:

- (a) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase

UNDERWRITING

any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create a pledge, charge, lien, mortgage, option, restriction, right of first refusal, security interest, claim, pre-emption rights, equity interest, third-party rights or interests or rights of the same nature as that of the foregoing or other encumbrances or security interest of any kind or another type of preferential arrangement (including without limitation, retention arrangement) having similar effect (the “**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 securities of our Company or any shares or other securities of such other members of our Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any other warrants or other rights to purchase, any Shares or any shares of such other members of our Group, as applicable), or deposit any Shares or other securities of our Company or any shares or other securities of such other members of our Group, as applicable, with a depositary in connection with the issue of depositary receipts; or repurchase any Shares or other securities of our Company or any shares or other securities of such other members of our Group, as applicable, 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 our Company or any shares or other securities of such other members of our Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or other securities of our Company or any shares or other securities of such other members of our Group, as applicable); or
- (c) enter into any transaction with the same economic effect as any transactions 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 securities of our Company or shares or other securities of such other members of our Group, as applicable, or in cash or otherwise (whether or not the issue of such Shares or other shares or securities will be completed within the First Six-Month Period).

Our Company has also undertaken that it will not, and will procure each member of our Group not to, enter into any of the transactions specified in (a), (b) or (c) above or offer to or agree to or announce any intention to effect any such transaction, such that our Controlling Shareholders would cease to be a controlling shareholder (as defined in the Listing Rules) of our Company during the Second Six-Month Period.

UNDERWRITING

In the event that, during the Second Six-Month Period, our Company enters into any of the transactions specified in (a), (b) or (c) above or offers to or agrees to or announces any intention to effect any such transaction, our Company shall take all reasonable steps to ensure that it will not create a disorderly or false market in any Shares or other securities of our Company.

Undertakings by our Controlling Shareholders

Each of our Controlling Shareholders has jointly and severally undertaken to each of our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters that, except pursuant to the Stock Borrowing Agreement and in compliance with the requirements under Rule 10.07(3) of the Listing Rules, without the prior written consent of the Sole Sponsor and the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters), at any time during the First Six-Month Period, he/she/it shall not, and shall procure that the relevant registered holder(s), any nominee or trustee holding on trust for him/her/it and the companies controlled by he/she/it (together, the “**Controlled Entities**”) shall not,

- (a) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell 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 securities of our Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares) beneficially owned by him/her/it directly or indirectly through its Controlled Entities (the “**Relevant Securities**”), or deposit any Relevant Securities 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 the Relevant Securities; or
- (c) enter into or effect any transaction with the same economic effect as any of the transactions referred to in (a) or (b) above; or
- (d) offer to or agree to or announce any intention to enter into or effect any of the transactions referred to in (a), (b) or (c) above,

which any of the foregoing transactions referred to in (a), (b), (c) or (d) above is to be settled by delivery of Shares or such other securities of our Company or in cash or otherwise (whether or not the issue of such Shares or other securities will be completed within the First Six-Month Period).

UNDERWRITING

Each of our Controlling Shareholders has jointly and severally undertaken to each of our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters that, except pursuant to the Stock Borrowing Agreement and in compliance with the requirements under Rule 10.07(3) of the Listing Rules, without the prior written consent of the Sole Sponsor and the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters), (i) at any time during the Second-Month Period, he/she/it shall not, and shall procure that the Controlled Entities shall not, enter into any of the transactions referred to in (a), (b) or (c) above or offer to or agree to or announce any intention to enter into any such transaction if, immediately following any sale, transfer or disposal or upon the exercise or enforcement of any option, right, interest or Encumbrance pursuant to such transaction, he/she/it would cease to be a “controlling shareholder” (as defined in the Listing Rules) of our Company or would together with the other Controlling Shareholders cease to be “controlling shareholders” (as defined in the Listing Rules) of our Company; (ii) in the event that he/she/it enters into any of the transactions specified in (a), (b) or (c) above or offer to or agrees to or announce any intention to effect any such transaction within the Second Six-Month Period, he/she/it shall take all reasonable steps to ensure that he/she/it will not create a disorderly or false market for any Shares or other securities of our Company; and (iii) he/she/it shall, and shall procure that the relevant registered holder(s) of the Relevant Securities and other Controlled Entities shall, comply with all the restrictions and requirements under the Listing Rules on the sale, transfer or disposal by he/she/it or by the registered holder(s) of the Relevant Securities and/or other Controlled Entities of any Shares or other securities of our Company.

Each of our Controlling Shareholders has further undertaken to each of our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters that, within the period from the date by reference to which disclosure of their shareholding in our Company is made in this prospectus and ending on the date which is twelve months from the Listing Date, he/she/it will:

- (i) when he/she/it pledges or charges any securities or interests in the Relevant Securities in favor of an authorized institution pursuant to Note (2) to Rule 10.07(2) of the Listing Rules, immediately inform our Company and the Sole Sponsor in writing of such pledges or charges together with the number of securities and nature of interest so pledged or charged; and
- (ii) when he/she/it receives indications, either verbal or written, from any pledgee or chargee that any of the pledged or charged securities or interests in the securities of our Company will be sold, transferred or disposed of, immediately inform our Company and the Sole Sponsor in writing of such indications.

UNDERWRITING

Indemnity

We have undertaken to indemnify and keep indemnified on demand (on an after-tax basis) and hold harmless each of the Joint Global Coordinators, the Sole Sponsor and the Hong Kong Underwriters (for themselves and on trust for its directors, officers, employees, agents, assignees and affiliates) from and against certain losses which they may suffer, including losses arising from their performance of their obligations under the Hong Kong Underwriting Agreement and any breach by us of the Hong Kong Underwriting Agreement, subject to the terms of the Hong Kong Underwriting Agreement.

The International Placing

In connection with the International Placing, it is expected that we will enter into the International Underwriting Agreement with, among others, the Joint Global Coordinators, the International Underwriters and the Sole Sponsor. Under the International Underwriting Agreement, the International Underwriters would, subject to certain conditions set out therein, severally and not jointly agree to subscribe the International Placing Shares being offered pursuant to the International Placing or procure subscribers for such International Placing Shares.

We expect to grant to the International Underwriters the Over-allotment Option, exercisable by the Stabilizing Manager in agreement with the Joint Global Coordinators for themselves and on behalf of the International Underwriters at any time from the date of the International Underwriting Agreement until the 30th day from the last day for lodging applications under the Hong Kong Public Offering, to require us to offer up to an aggregate of 18,900,000 additional Shares, together representing 15% of the number of Shares initially being offered under the Global Offering, at the Offer Price to solely cover over-allocations in the International Placing, if any.

It is expected that the International Underwriting Agreement may be terminated on similar grounds as the Hong Kong Underwriting Agreement. Potential investors shall be reminded that in the event that the International Underwriting Agreement is not entered into, the Global Offering will not proceed.

We have undertaken to indemnify and keep indemnified on demand (on an after-tax basis) and hold harmless each of the Joint Global Coordinators, the Sole Sponsor and the International Underwriters (for themselves and on trust for its directors, officers, employees, agents, assignees and affiliates) from and against certain losses which they may suffer, including losses arising from their performance of their obligations under the International Underwriting Agreement and any breach by us of the International Underwriting Agreement, subject to the terms of the International Underwriting Agreement.

UNDERWRITING

Underwriting Commission and Expenses

Under the terms and conditions of the Hong Kong Underwriting Agreement, the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) will receive an underwriting commission equal to 15.0% on the aggregate Offer Price payable in respect of all of the Hong Kong Offer Shares (excluding any International Placing Shares reallocated to the Hong Kong Public Offering and any Hong Kong Offer Shares reallocated to the International Placing). In addition, our Company may also in its sole and absolute discretion pay to the Hong Kong Underwriters or any one of them an incentive fee, which will form part of the Listing expenses. The respective entitlements of the Hong Kong Underwriters to the underwriting commission will be paid as separately agreed between the Joint Global Coordinators and the Hong Kong Underwriters. For unsubscribed Hong Kong Offer Shares reallocated to the International Placing, we will pay an underwriting commission at the rate applicable to the International Placing and such commission will be paid to the Joint Global Coordinators and the relevant International Underwriters (but not the Hong Kong Underwriters).

Assuming the Over-allotment Option is not exercised at all and based on an Offer Price of HK\$1.65 per Share (being the mid-point of the indicative Offer Price range of HK\$1.50 to HK\$1.80 per Share), the aggregate commissions and fees, together with the Stock Exchange listing fees, the SFC transaction levy, the Stock Exchange trading fee, legal and other professional fees and printing and other expenses relating to the listing of the existing Shares and the Global Offering to be borne by us are estimated to amount to approximately HK\$75.5 million in aggregate (assuming an Offer Price of HK\$1.65, being the mid-point of the indicative range of the Offer Price of HK\$1.50 to HK\$1.80).

Hong Kong Underwriters' Interests in our Company

Save for their respective obligations under the Hong Kong Underwriting Agreement or as otherwise disclosed in this prospectus, none of the Hong Kong Underwriters is interested legally or beneficially in any shares of any of our members or has any right or option (whether legally enforceable or not) to subscribe for or purchase or to nominate persons to subscribe for or purchase securities in any of our members in the Global Offering.

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 obligations under the Hong Kong Underwriting Agreement.

Independence of the Sole Sponsor

The Sole Sponsor satisfies the independence criteria applicable to sponsors as set out in Rule 3A.07 of the Listing Rules.

RESTRICTIONS ON THE OFFER SHARES

No action has been taken to permit a public offering of the Offer Shares 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.

In particular, the Offer Shares have not been offered or sold, and will not be offered or sold, directly or indirectly, in the PRC.

ACTIVITIES BY SYNDICATE MEMBERS

The underwriters of the Hong Kong Public Offering and the International Placing (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 relation to the Shares, those activities could include acting as agent for buyers and sellers of the Shares, entering into transactions with those buyers and sellers in a principal capacity, proprietary trading in the Shares, and entering into over the counter or listed derivative transactions or listed and unlisted securities transactions (including issuing securities such as derivative warrants listed on a stock exchange) which have, as their underlying assets, assets including the Shares. Those activities may require hedging activity by those entities involving, directly or indirectly, the buying and selling 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 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.

UNDERWRITING

All such activities may occur both during and after the end of the stabilizing period as set out in the section headed “Structure and Conditions of the Global Offering – Stabilization Action” of this prospectus. 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 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 inside dealing, false trading, price rigging and stock market manipulation.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering which forms part of the Global Offering. Lego Corporate Finance Limited is the Sole Sponsor for the listing of the Shares on the Stock Exchange and the Joint Global Coordinators, the Joint Bookrunners and the Joint Lead Managers of the Global Offering.

The Global Offering initially consists of:

- (i) the Hong Kong Public Offering of 12,600,000 Offer Shares (subject to reallocation as mentioned below) in Hong Kong as set out in the paragraph headed “Hong Kong Public Offering” of this section below; and
- (ii) the International Placing of an aggregate of 113,400,000 Offer Shares by our Company (subject to reallocation and the Over-allotment Option as mentioned below) outside the United States in reliance on Regulation S or pursuant to another exemption from the registration requirements under the U.S. Securities Act.

Investors may apply for Offer Shares under the Hong Kong Public Offering or indicate an interest, if qualified to do so, for the Offer Shares under the International Placing, but may not do both. Reasonable steps will be taken to identify and reject applications in the Hong Kong Public Offering from investors who have received Offer Shares in the International Placing, and to identify and reject indications of interest in the International Placing from investors who have applied for Hong Kong Offer Shares in the Hong Kong Public Offering. The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors in Hong Kong. The International Placing will involve selective marketing of Offer Shares to professional, institutional 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 which regularly invest in shares and other securities. The International Underwriters are soliciting from prospective investors’ indications of interest in acquiring the Offer Shares in the International Placing. Prospective professional, institutional and other investors will be required to specify the number of Offer Shares under the International Placing they would be prepared to acquire either at different prices or at a particular price. This process, known as “bookbuilding”, is expected to continue up to, and to cease on or around the Price Determination Date.

The number of Offer Shares to be offered under the Hong Kong Public Offering and International Placing respectively may be subject to reallocation as set out in the paragraph headed “Hong Kong Public Offering — Reallocation and Clawback” of this section below.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement and is subject to our Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) agreeing on the Offer Price. Our Company expects to enter into the International Underwriting Agreement relating to the International Placing on the Price Determination Date. Details of the underwriting arrangements are summarized in the section headed “Underwriting” of this prospectus.

Announcement of Offer Price and Basis of Allocation

The Offer Price under the Global Offering, the level of indications of interest in the International Placing, and the level of applications and the results of and basis of allocations under the Hong Kong Public Offering are expected to be announced on Monday, 16 March 2020 on our website www.jiuzundigital.com and on the Stock Exchange’s website at www.hkexnews.hk and in a variety of channels in the manner as set out in the section headed “How to Apply for Hong Kong Offer Shares — 11. Publication of Results” of this prospectus. You should note that our website, and all information contained in our website, does not form part of this prospectus.

CONDITIONS OF THE GLOBAL OFFERING

Acceptance of all applications for Offer Shares pursuant to the Global Offering will be conditional on, among others:

- (i) the Listing Committee granting the listing of, and permission to deal in, the Shares in issue, the Offer Shares to be issued pursuant to the Global Offering and the Capitalization Issue and any Shares which may be issued pursuant to the exercise of the Over-allotment Option and such listing and permission not subsequently having been revoked prior to the commencement of dealing in our Shares on the Stock Exchange;
- (ii) the Offer Price having been fixed on or around the Price Determination Date;
- (iii) the execution and delivery of the International Underwriting Agreement on or around the Price Determination Date; and
- (iv) the obligations of the Underwriters under each of the Hong Kong Underwriting Agreement and the International Underwriting Agreement becoming and remaining unconditional and not having been terminated in accordance with the terms of the respective agreements,

in each case on or before the dates and times specified in the respective agreements in each case on or before the dates and times specified in the Underwriting Agreements (unless 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.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

The Offer Shares are being offered at the Offer Price which is expected to be fixed between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and our Company on the Price Determination Date, which is expected to be on or around Tuesday, 10 March 2020 and in any event, not later than Friday, 13 March 2020.

If, for any reason, the Offer Price is not agreed between the Joint Global Coordinator (for themselves and on behalf of the Underwriters) and our Company by Friday, 13 March 2020, the Global Offering will not proceed and will lapse.

The consummation of each of the Hong Kong Public Offering and the International Placing 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 times and dates specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. We will cause a notice of the lapse of the Hong Kong Public Offering to be published on the website of the Stock Exchange at www.hkexnews.hk and our website at www.jiuzundigital.com on the next Business Day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in the section headed “How to Apply for the Hong Kong Offer Shares” of this prospectus. In the meantime, all application monies will be held in separate bank account(s) with the receiving bank(s) or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended from time to time).

Share certificates for the Offer Shares are expected to be issued on Monday, 16 March 2020 but will only become valid certificates of title at 8:00 a.m. on Tuesday, 17 March 2020 provided that (i) the Global Offering has become unconditional in all respects; and (ii) the right of termination as set out in the section headed “Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Grounds for termination” of this prospectus has not been exercised. Investors who trade the Shares prior to the receipt of share certificates or prior to the share certificates bearing valid certificates of title do so entirely at their own risk.

HONG KONG PUBLIC OFFERING

Number of Offer Shares initially offered

Our Company is initially offering 12,600,000 Offer Shares for subscription by the public in Hong Kong at the Offer Price, representing approximately 10% of the total number of Offer Shares initially available under the Global Offering (assuming that the Over-allotment Option is not exercised). Subject to the reallocation of Shares between (i) the International Placing; and (ii) the Hong Kong Public Offering as mentioned below, the number of the Hong Kong Offer Shares will represent approximately 2.3% of our Company’s issued share capital immediately after completion of the Global Offering and the Capitalization Issue without

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

taking into account any Shares which may be issued and allotted upon any exercise of Over-allotment Option and the options which have been or may be granted under the Share Option Scheme.

Completion of the Hong Kong Public Offering is subject to the conditions as set out in the paragraph headed “Conditions of the Global Offering” of this section.

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 would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

The total available Shares under the Hong Kong Public Offering (after taking into account of any reallocation of Offer Shares between the Hong Kong Public Offering and the International Placing is to be divided into two pools (subject to adjustment of odd lot size) for allocation purposes: pool A and pool B with any odd Board Lots being allocated to pool A. Accordingly, the maximum number of Hong Kong Offer Shares initially in pool A and pool B will be 6,300,000 and 6,300,000 respectively. 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 of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% 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 of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% payable). Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If the Hong Kong Offer Shares in one (but not both) of the pools are under-subscribed, the surplus 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 this section only, the “price” for 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 but not from both pools and can only apply for Hong Kong Offer Shares in either pool A or pool B.

Multiple or suspected multiple applications within either pool or between pools and any application for more than 6,300,000 Hong Kong Offer Shares are liable to be rejected.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

Reallocation and Clawback

The allocation of the Offer Shares between the Hong Kong Public Offering and the International Placing is subject to reallocation at the discretion of the Joint Global Coordinators, subject to the following:

- (a) where the International Placing Shares are fully subscribed or oversubscribed:
 - (i) if the Hong Kong Offer Shares are undersubscribed, the Joint Global Coordinators have the authority to reallocate all or any unsubscribed Hong Kong Offer Shares to the International Placing, in such proportions as the Joint Global Coordinators deem appropriate;
 - (ii) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents less than 15 times the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then up to 12,600,000 Offer Shares may be reallocated to the Hong Kong Public Offering from the International Placing, so that the total number of the Offer Shares available under the Hong Kong Public Offering will be increased to 25,200,000 Offer Shares, representing 20% of the total number of the Offer Shares initially available under the Global Offering;
 - (iii) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents (1) 15 times or more but less than 50 times, (2) 50 times or more but less than 100 times, and (3) 100 times or more of the number of Offer Shares initially available under the Hong Kong Public Offering, the Offer Shares will be reallocated to the Hong Kong Public Offering from the International Placing in accordance with the clawback requirements set forth in paragraph 4.2 of Practice Note 18 of the Listing Rules, so that the total number of Hong Kong Offer Shares will be increased to 37,800,000 Offer Shares (in the case of (1)), 50,400,000 Offer Shares (in the case of (2)) and 63,000,000 Offer Shares (in the case of (3)), representing approximately 30%, 40% and 50% of the Offer Shares initially available under the Global Offering, respectively;
- (b) where the International Placing Shares are undersubscribed:
 - (i) if the Hong Kong Offer Shares are also undersubscribed, the Global Offering will not proceed unless the Underwriters would subscribe for or procure subscribers for their respective applicable proportions of the Offer Shares being offered which are not taken up under the Global Offering on the terms and conditions of this prospectus, the Application Forms and the Underwriting Agreements; and

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

- (ii) if the Hong Kong Offer Shares are fully subscribed or oversubscribed (irrespective of the extent of over-subscription), then up to 12,600,000 Offer Shares may be reallocated to the Hong Kong Public Offering from the International Placing, so that the total number of the Offer Shares available under the Hong Kong Public Offering will be increased to 25,200,000 Offer Shares, representing 20% of the total number of the Offer Shares initially available under the Global Offering.

In the event of reallocation of Offer Shares from the International Placing to the Hong Kong Public Offering in the circumstances described in paragraph (a)(ii) or (b)(ii) above, the final Offer Price shall be fixed at the bottom end of the Offer Price Range (i.e. HK\$1.50 per Offer Share) or the downward adjusted final Offer Price if a Downward Offer Price Adjustment is made according to HKEX Guidance Letter HKEX-GL91-18 issued by the Stock Exchange.

In accordance with Guidance Letter HKEX-GL91-18 issued by the Stock Exchange, if such reallocation is conducted other than pursuant to Practice Note 18 of the Listing Rules, the maximum total number of Offer Shares that may be allocated to the Hong Kong Public Offering following such reallocation shall be not more than 25,200,000 Offer Shares, representing 20% of the total number of the Offer Shares initially available under the Global Offering.

In all cases of reallocation of Offer Shares from the International Placing to the Hong Kong Public Offering, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between pool A and pool B in equal proportion and the number of Offer Shares allocated to the International Placing will be correspondingly reduced.

Details of any reallocation of Offer Shares between the Hong Kong Public Offering and the International Placing will be disclosed in the result announcement of the Global Offering, which is expected to be published on Monday, 16 March 2020.

Applications

Each applicant under the Hong Kong Public Offering will be required to give an undertaking and confirmation in the Application Form or the **electronic application instruction** to HKSCC submitted by him or her, that he or she, and any person(s) for whose benefit he or she is making the application (if any), have not indicated an interest for or taken up and will not indicate an interest for or take up any International Placing Shares, and such applicant's application will be rejected if this undertaking and/or confirmation is breached and/or untrue.

Our Company, our Directors, the Sole Sponsor and the Joint Global Coordinators will take reasonable steps to identify and reject applicants under the Hong Kong Public Offering from investors who have received Offer Shares in the International Placing, and to identify and reject indications of interest in the International Placing from investors who have received Offer Shares in the Hong Kong Public Offering.

The Joint Global Coordinators, on behalf of the other Underwriters, may require any investor who has been offered Shares under the International Placing, 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 them to identify the relevant applications under the Hong Kong Public Offering and to ensure that he or she is excluded from any application for Shares under the Hong Kong Public Offering.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

The Offer Price will be not more than HK\$1.80 per Offer Share and is expected to be not less than HK\$1.50 per Offer Share. Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum Offer Price of HK\$1.80 on each Hong Kong Offer Share plus 1% brokerage fee, 0.0027% SFC transaction levy and 0.005% the Stock Exchange trading fee on each Hong Kong Offer Share. If the Offer Price, as finally determined on the Price Determination Date, is lower than HK\$1.80 per Offer Share, being the maximum Offer Price, we will refund the respective difference (including the brokerage fee, the SFC transaction levy and the Stock Exchange trading fee attributable to the surplus application monies) to successful applicants, without interest. Further details are set out in the section headed “How to Apply for Hong Kong Offer Shares” of this prospectus.

References in this prospectus to applications, Application Forms, application monies or to the procedure for application relate solely to the Hong Kong Public Offering.

INTERNATIONAL PLACING

The International Placing will consist of initially 113,400,000 Offer Shares and is subject to reallocation and the Over-allotment Option, to be offered outside the United States (within the meaning of Regulation S under the U.S. Securities Act) in reliance on Regulation S under the U.S. Securities Act, including to professional investors in Hong Kong. The International Placing will be subject to, among other matters, the Hong Kong Public Offering becoming unconditional.

Pursuant to the International Placing, the International Underwriters will conditionally place our Shares with institutional and professional investors expected to have a sizeable demand for our Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S. Allocation of Offer Shares pursuant to the International Placing will be based on a number of factors, including the level and timing of demand, total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Shares, and/or hold or sell its Shares, after the listing of the Shares on the Stock Exchange. Such allocation is intended to result in a distribution of the Shares on a basis which would lead to the establishment of a solid professional and institutional Shareholder base to the benefit of our Company and our Shareholders as a whole.

Over-allotment Option

In connection with the Global Offering, our Company is expected to grant an Over-allotment Option to the Joint Global Coordinators (for themselves and on behalf of the International Underwriters) that exercisable at the sole discretion of the Joint Global Coordinators (for themselves and on behalf of the International Underwriters).

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

Pursuant to the Over-allotment Option, the Joint Global Coordinators have the right, exercisable at any time from the date of the Listing Date until 30 days from the date of the last day of lodging application under the Hong Kong Public Offering, to require our Company to allot and issue up to 18,900,000 additional Shares, representing 15% of the number of the Offer Shares initially available under the Global Offering, at the Offer Price, to cover, over-allocation in the International Placing, if any. If the Over-allotment Option is exercised in full, the additional Offer Shares will represent approximately 3.35% of our enlarged share capital immediately following the completion of the Global Offering and the exercise of the Over-allotment Option but without taking into account any Shares which may fall to be issued upon the exercise of any options to be granted under the Share Option Scheme. In the event that the Over-allotment Option is exercised, an announcement will be made in accordance with the Listing Rules.

PRICE DETERMINATION OF THE GLOBAL OFFERING

The Offer Price is expected to be fixed on the Price Determination Date, which is expected to be on or around Tuesday, 10 March 2020, and in any event not later than Friday, 13 March 2020, by agreement between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and our Company. If for any reason, our Company and the Joint Global Coordinators (for themselves and on behalf of other Underwriters) are not able to reach agreement on the Offer Price, the Global Offering will not proceed and will lapse.

The Offer Price will be not more than HK\$1.80 per Share and is expected to be not less than HK\$1.50 per Share unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Hong Kong Public Offering.

Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus (subject to a Downward Offer Price Adjustment).

Reduction in Offer Price range and/or number of Offer 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 indicative Offer Price range stated in this prospectus. If, based on the level of interest expressed by prospective institutional and professional investors and other investors during the book-building process, the Joint Global Coordinators (for themselves and on behalf of the other Underwriters) consider the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range to be inappropriate, the Joint Global Coordinators (for themselves and on behalf of the other Underwriters) may, with the consent of our Company, reduce the number of Offer Shares being offered pursuant to the Global Offering and/or the indicative Offer Price range below that stated in this prospectus at any time on or before the morning of the last day for lodging applications under the Hong Kong Public Offering.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

In such a case, we will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering on Monday, 9 March 2020, cause to be published at our website at www.jiuzundigital.com and the website of the Stock Exchange at www.hkexnews.hk, notices of the reduction in the number of 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 notice updating investors of the reduction. Upon the issue of such a notice, 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 us, will be fixed within such revised Offer Price Range. If the number of Offer Shares and/or the Offer Price range is so reduced, all applicants who have already submitted an application will need to confirm their applications in accordance with the procedures set out in the supplemental prospectus and all unconfirmed applications will not be valid.

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 being offered under the Global Offering and/or the indicative Offer Price range may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering. The Offer Price, if agreed upon, will be fixed within such revised Offer Price range. In the absence of any notice being published of a reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range stated in this prospectus on or before the last day for lodging applications under the Hong Kong Public Offering, the Offer Price, if agreed upon, will under no circumstances be set outside the Offer Price range as stated in this prospectus.

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 our Company, determine the final Offer Price to be no more than 10% below the bottom end of the indicative Offer Price range, at any time on or prior to the Price Determination Date.

In such situation, our Company will, as soon as practicable following the decision to set the final Offer Price below the bottom end of the indicative Offer Price range, publish on the website of our Company at www.jiuzundigital.com and the website of the Stock Exchange at www.hkexnews.hk 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 Monday, 16 March 2020. 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 Withdrawal Mechanism is utilized.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

The Offer Shares to be offered in the Hong Kong Public Offering and the International Placing may, in certain circumstances, be reallocated as between these offerings at the discretion of the Joint Global Coordinators. Allocation of the International Placing Shares under the International Placing will be determined by the Joint Global Coordinators and will be based on a number of factors, including the level and timing of demand, total size of the relevant investor's invested assets or equity assets in the relevant sector, and whether or not it is expected that the relevant investor is likely to buy further and/or hold or sell Offer Shares after the Listing. Such allocation may be made to professional, institutional, or corporate investors and is intended to result in a distribution of our Offer Shares on a basis which would lead to the establishment of a solid Shareholder base to the benefit of our Company and our Shareholders as a whole. Allocation of the Hong Kong Offer Shares to investors under the Hong Kong Public Offering will be based on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of the Hong Kong Offer Shares validly applied for by applicants. The allocation of the Hong Kong Offer Shares could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of the Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

Irrespective of whether a Downward Offer Price Adjustment is made, the final Offer Price, the level of applications in the Hong Kong Public Offering, the level of indications of interest in the International Placing, the basis of allocations of the Hong Kong Offer Shares, and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering are expected to be made available through a variety of channels in the manner as set out in the section headed "How to Apply for Hong Kong Offer Shares — 11. Publication of Results" of this prospectus.

STABILIZATION ACTION

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the underwriters may bid for, or purchase, the new securities in the secondary market during a specified period of time to retard and, if possible, prevent any decline in the market price of the securities below the Offer Price. In Hong Kong, activities aimed at reducing the market price are prohibited and the price at which stabilization is effected is not permitted to exceed the Offer Price.

Elstone Securities Limited has been appointed by us as the stabilizing manager for the purposes of the Global Offering in accordance with the Securities and Futures (Price Stabilizing) Rules made under the SFO. In connection with the Global Offering, the Stabilizing Manager, its affiliates or any person acting for it, on behalf of the Underwriters, may, to the extent permitted by applicable laws of Hong Kong or elsewhere, over-allocate or effect any other transactions with a view to stabilizing or maintaining the market price of our Shares at a level higher than that which might otherwise prevail in the open market for a limited period beginning on the Listing Date and expected to end on the 30th day after the last day for lodging of applications under the Hong Kong Public Offering. Such transactions may

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements. Any market purchase of the Shares may be effected on any stock exchange, including the Stock Exchange, any over-the-counter market or otherwise, provided that they are made in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilizing Manager, its affiliates or any person acting for it to conduct any such stabilizing activity, which if commenced, will be done at the sole and absolute discretion of the Stabilizing Manager and may be discontinued at any time. Any such stabilizing activity is required to be brought to an end on the 30th day after the last day for the lodging of applications under the Hong Kong Public Offering. The number of Shares that may be over-allocated will not exceed the number of Shares that may be allotted and issued by our Company under the Over-allotment Option, namely 18,900,000 Shares in aggregate, which is approximately 15% of the Shares initially available under the Global Offering.

Following any over-allocation of Shares in connection with the Global Offering, the Stabilizing Manager, its affiliates or any person acting for it may take all or any of the following stabilizing actions in Hong Kong during the stabilization period to cover such over-allocation by (among other methods) making purchases in the secondary market, selling Shares to liquidate a position held as a result of those purchases, exercising the Over-allotment Option in full or in part, stock borrowing or by any combination of any of the foregoing.

The possible stabilizing action which may be taken by the Stabilizing Manager, its affiliates or any person acting for it in connection with the Global Offering may involve (i) purchases of Shares; (ii) establishing, hedging and liquidating positions in Shares; (iii) exercising the Over-allotment Option in whole or in part; (iv) stock borrowing; and/or (v) offering or attempting to do any of (i), (ii), (iii) or (iv) above.

Specifically, prospective applicants for and investors in Offer Shares should note that:

- the Stabilizing Manager, its affiliates or any person acting for it may, in connection with the stabilizing action, maintain a long position in our Shares;
- there is no certainty regarding the extent to which and the time period for which the Stabilizing Manager, its affiliates or any person acting for it will maintain such a position;
- liquidation of any such long position by the Stabilizing Manager, its affiliates or any person acting for it may have an adverse impact on the market price of our Shares;

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

- no stabilizing action can be taken to support the price of our Shares for longer than the stabilizing period which will begin on the Listing Date following announcement of the Offer Price, and is expected to expire on the 30th day after the last day for lodging applications under the Hong Kong Public Offering. After this date, when no further action may be taken to support the price of our Shares, demand for our Shares, and therefore the price of our Shares, could fall;
- the price of any security (including our Shares) cannot be assured to stay at or above its Offer Price by the taking of any stabilizing action; and
- stabilizing bids may be made or transactions effected in the course of the stabilizing action at any price at or below the Offer Price, which means that stabilizing bids may be made or transactions effected at a price below the price paid by applicants for, or investors in, our Shares.

STOCK BORROWING AGREEMENT

In order to facilitate the settlement of over-allocations in connection with the Global Offering, the Stabilizing Manager may choose to enter into an agreement with JLCY SAGA to borrow, whether on its own or through its affiliates, up to 18,900,000 Shares, representing 15% of the total number of the Offer Shares initially available for the Global Offering. The stock borrowing arrangement under such an agreement, if entered into, will not be 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 are complied with as follows:

- such stock borrowing arrangement is fully described in this prospectus and must be for the sole purpose of covering any short position prior to the exercise of the Over-allotment Option;
- the maximum number of Shares to be borrowed from 18,900,000 by the Stabilizing Manager (or any person acting for it) is the maximum number of Shares that may be issued upon full exercise of the Over-allotment Option;
- the same number of Shares so borrowed must be returned to their nominee(s) within three Business Days following the earlier of (a) the last day on which the Over-allotment Option may be exercised, and (b) the day on which the Over-allotment Option is exercised in full;
- the stock borrowing arrangement will be effected in compliance with all applicable listing rules, laws and other regulatory requirements; and
- no payment will be made to JLCY SAGA by the Stabilizing Manager (or any person acting for it) in relation to such stock borrowing arrangement.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

UNDERWRITING ARRANGEMENTS

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 between the Joint Global Coordinators (for themselves and on behalf of the other Underwriters) and us on the Price Determination Date.

We expect that we will, on or around the Price Determination Date, shortly after determination of the Offer Price, enter into the International Underwriting Agreement relating to the International Placing. The underwriting arrangements, the Hong Kong Underwriting Agreement and the International Underwriting Agreement are summarized in the section headed “Underwriting” of this prospectus.

DEALINGS

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Tuesday, 17 March 2020, it is expected that dealings in the Offer Shares on the Stock Exchange will commence at 9:00 a.m. on Tuesday, 17 March 2020, and will be traded in board lots of 2,000 Shares each.

HOW TO APPLY 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 Placing Shares.

To apply for Hong Kong Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **HK eIPO White Form** service at www.hkeipo.hk or by the **IPO App**; 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.

Our Company, the Joint Global Coordinators, the **HK eIPO White Form** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY

You can apply for Hong Kong Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the 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, and are not a U.S. person (as defined in Regulation S); and
- are not a legal or natural person of the PRC.

If you apply online through the **HK eIPO White Form** service, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) 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.

HOW TO APPLY FOR HONG KONG OFFER SHARES

If an application is made by a person under a power of attorney, the Joint Global Coordinators may accept it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of **HK eIPO White Form** 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 in our Company, any of its subsidiaries and/or our Consolidated Affiliated Entities;
- a Director or chief executive of our Company, any of its subsidiaries and/or our Consolidated Affiliated Entities;
- a core connected person (as defined in the Listing Rules) of the Company or will become a core connected person of the Company immediately upon completion of the Global Offering;
- a close associate (as defined in the Listing Rules) of any of the above; or
- have been allocated or have applied for any International Placing Shares or otherwise participate in the International Placing.

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 **HK eIPO White Form** service at www.hkeipo.hk or the **IPO APP**.

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.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a copy of this prospectus during normal business hours from 9:00 a.m. on Tuesday, 27 February 2020 until 12:00 noon on Monday, 9 March 2020 from:

(i) the following offices of the Underwriters:

Elstone Securities Limited	Suite 1601-04, 16/F., West Tower, Shun Tak Centre, 168–200 Connaught Road Central, Hong Kong
Lego Securities Limited	Room 301, 3/F, China Building, 29 Queen's Road Central, Central, Hong Kong
Guosen Securities (HK) Capital Company Limited	<i>(from 27 February 2020 up to 29 February 2020)</i> 42/F, Two International Finance Centre 8 Finance Street Central Hong Kong <i>(effective from 1 March 2020)</i> Suites 3207-3212, 32/F One Pacific Place 88 Queensway Hong Kong
Alpha Financial Group Limited	Room A, 17th Floor, Fortune House, 61 Connaught Road Central, Hong Kong
BOCOM International Securities Limited	9th Floor, Man Yee Building, 68 Des Voeux Road, Central Hong Kong
China Tonghai Securities Limited	18/F-19/F China Building, 29 Queen's Road Central, Hong Kong

HOW TO APPLY FOR HONG KONG OFFER SHARES

CMBC Securities Company Limited	45/F, One Exchange Square, 8 Connaught Place, Central Hong Kong
Essence International Securities (Hong Kong) Limited	39/F, One Exchange Square, Central, Hong Kong
Great Roc Capital Securities Limited	44/F, Convention Plaza Office Tower, 1 Harbour Road, Wan Chai Hong Kong
Conrad Investment Services Limited	23/F Tung Hip Commercial Building, 244-248 Des Voeux Road Central, Sheung Wan Hong Kong
Lee Go Securities Limited	Unit 02, 12/F, West Exchange Tower, 322 Des Voeux Road Central, Hong Kong

(ii) any of the branches of the receiving bank:

District	Branch	Address
Hong Kong Island	Central Branch	1/F, 9 Queen's Road Central, Hong Kong
Kowloon	Yaumatei Branch	542 Nathan Road, Yaumatei, Kowloon
New Territories	Sha Tsui Road Branch	Shop 4, G/F Chung On Building, 297-313 Sha Tsui Road, Tsuen Wan, New Territories

You can collect a **YELLOW** Application Form and a copy of this prospectus during normal business hours from 9:00 a.m. on Thursday, 27 February 2020 until 12:00 noon on Monday, 9 March 2020 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker.

HOW TO APPLY FOR HONG KONG OFFER SHARES

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 "**ICBC (ASIA) NOMINEE LIMITED - Jiu Zun Digital Interactive Entertainment Group PUBLIC OFFER**" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving bank listed above, at the following times:

Thursday, 27 February 2020	— 9:00 a.m. to 5:00 p.m.
Friday, 28 February 2020	— 9:00 a.m. to 5:00 p.m.
Saturday, 29 February 2020	— 9:00 a.m. to 1:00 p.m.
Monday, 2 March 2020	— 9:00 a.m. to 5:00 p.m.
Tuesday, 3 March 2020	— 9:00 a.m. to 5:00 p.m.
Wednesday, 4 March 2020	— 9:00 a.m. to 5:00 p.m.
Thursday, 5 March 2020	— 9:00 a.m. to 5:00 p.m.
Friday, 6 March 2020	— 9:00 a.m. to 5:00 p.m.
Saturday, 7 March 2020	— 9:00 a.m. to 1:00 p.m.
Monday, 9 March 2020	— 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Monday, 9 March 2020, the last application day or such later time as set out in the paragraph headed "10. Effect of Bad Weather and/or Extreme Conditions on the Opening of the Applications Lists" of this section.

4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **HK eIPO White Form** service, among other things, you (and if you are joint applicants, each of you jointly and severally) for yourself or as an agent or a nominee on behalf of each person for whom you act:

- (i) undertake to execute all relevant documents and instruct and authorize the Company and/or the Joint Global Coordinators (or their agents or nominees), as agents of the Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles;
- (ii) agree to comply with the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles;
- (iii) 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;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- (iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;
- (v) confirm that you are aware of the restrictions on the Global Offering in this prospectus;
- (vi) agree that none of our Company, the Sole Sponsor, the 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 is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- (vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Placing nor participated in the International Placing;
- (viii) agree to disclose to the Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, the Hong Kong Branch Share Registrar, the receiving bank, and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;
- (ix) (if the laws of any place outside Hong Kong apply to your application) agree and warrant that you have complied with all such laws and none of our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;
- (x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (xi) agree that your application will be governed by the laws of Hong Kong;
- (xii) represent, warrant and undertake that (i) you understand that the Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Hong Kong Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- (xiii) warrant that the information you have provided is true and accurate;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- (xiv) agree to accept the Hong Kong Offer Shares applied for, or any lesser number of such Shares allocated to you under the application;
- (xv) authorize the Company to place your name(s) or the name of the HKSCC Nominees, on the Company's register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and the Company and/or its agents to send any share certificate(s) and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you are eligible to collect the share certificate(s) and/or refund cheque(s) in person;
- (xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- (xvii) understand that the Company and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;
- (xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **HK eIPO White Form** Service Provider by you or by any one as your agent or by any other person; and
- (xix) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person 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 their agent.

Additional Instructions for **YELLOW** Application Form

You may refer to the **YELLOW** Application Form for details.

HOW TO APPLY FOR HONG KONG OFFER SHARES

5. APPLYING THROUGH HK eIPO WHITE FORM SERVICE

General

Individuals who meet the criteria in “Who can apply” section, may apply through the **HK eIPO White Form** service for the Public Offer Shares to be allotted and registered in their own names through the designated website at www.hkeipo.hk or the **IPO App**.

Detailed instructions for application through the **HK eIPO White Form** service are on the designated website or in the **IPO App**. If you do not follow the instructions, your application may be rejected and may not be submitted to our Company. If you apply through the designated website or the **IPO App**, you authorise the **HK eIPO White Form** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **HK eIPO White Form** service.

Time for Submitting Applications under the HK eIPO White Form

You may submit your application to the **HK eIPO White Form** Service Provider at www.hkeipo.hk or in the **IPO App** (24 hours daily, except on the last application day) from 9:00 a.m. on Thursday, 27 February 2020 until 11:30 a.m. on Monday, 9 March 2020 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Monday, 9 March 2020 or such later time as set out in the paragraph headed “10. Effect of Bad Weather and/or Extreme Conditions on the Opening of the Applications Lists” of this section.

No Multiple Applications

If you apply by means of **HK eIPO White Form**, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **HK eIPO White Form** service to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **HK eIPO White Form** more than once and obtaining different payment reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application. If you are suspected of submitting more than one application through the **HK eIPO White Form** service or by any other means, all of your applications are liable to be rejected.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our 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).

HOW TO APPLY FOR HONG KONG OFFER SHARES

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 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 Center
1/F, One & Two Exchange Square
8 Connaught Place
Central
Hong Kong

and complete an input request form.

You can also collect a copy of this prospectus from this 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 our Hong Kong Branch 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:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;

HOW TO APPLY FOR HONG KONG OFFER SHARES

(ii) HKSCC Nominees will do the following things on your behalf:

- agree that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
- agree to accept the Hong Kong Offer Shares applied for or any lesser number of such Shares allocated;
- undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the International Placing;
- (If the electronic application instructions are given for your benefit) declare that only one set of **electronic application instructions** has been given for your benefit;
- (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorized to give those instructions as their agent;
- confirm that you understand that the Company, the Directors, the Sole Sponsor and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted if you make a false declaration;
- authorize the Company to place HKSCC Nominees' name on the Company's register of members as the holder of the Hong Kong Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
- confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- agree that none of the Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Underwriter, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
- agree to disclose your personal data to the Company, the Sole Sponsor, the Joint Global Coordinators, the Underwriters, our Hong Kong Branch Share Registrar, receiving bank and/or its respective advisers and agents;
- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of the Company agreeing that it will not offer any Hong Kong Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;
- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the Company's announcement of the Hong Kong Public Offering results;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving **electronic application instructions** to apply for Hong Kong Offer Shares;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- agree with the Company, for itself and for the benefit of each Shareholder (and so that the Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies Ordinance and the Bye-laws; and
- agree that your application, any acceptance of it and the resulting contract will be governed by 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 shall be liable to the Company or any other person in respect of the things mentioned below:

- instructed and authorized HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
- instructed and authorized HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the 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 per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the 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.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Time for Inputting Electronic Application Instructions

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:⁽¹⁾

Thursday, 27 February 2020	— 9:00 a.m. to 8:30 p.m.
Friday, 28 February 2020	— 8:00 a.m. to 8:30 p.m.
Saturday, 29 February 2020	— 8:00 a.m. to 1:00 p.m.
Monday, 2 March 2020	— 8:00 a.m. to 8:30 p.m.
Tuesday, 3 March 2020	— 8:00 a.m. to 8:30 p.m.
Wednesday, 4 March 2020	— 8:00 a.m. to 8:30 p.m.
Thursday, 5 March 2020	— 8:00 a.m. to 8:30 p.m.
Friday, 6 March 2020	— 8:00 a.m. to 8:30 p.m.
Saturday, 7 March 2020	— 8:00 a.m. to 1:00 p.m.
Monday, 9 March 2020	— 8:00 a.m. to 12:00 noon

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 Thursday, 27 February 2020 until 12:00 noon on Monday, 9 March 2020 (24 hours daily, except on (Monday, 9 March 2020), the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Monday, 9 March 2020, the last application day or such later time as set out in the paragraph headed “10. Effect of Bad Weather and/or Extreme Conditions on the Opening of the Application Lists” of this section.

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 shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Section 40 of the Hong Kong 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).

Personal Data

The section of the Application Form headed “Personal Data” applies to any personal data held by the Company, the Hong Kong Branch Share Registrar, the receiving bank, the Joint Global Coordinators, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Offer Shares through the **HK eIPO White Form** service is also only a facility provided by the **HK eIPO White Form** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. Our Company, our Directors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers **HK eIPO White Form** Service Provider and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **HK eIPO White Form** service will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CASS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC’s Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Monday, 9 March 2020.

HOW TO APPLY FOR HONG KONG OFFER SHARES

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 **HK eIPO White Form** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

“*Unlisted company*” means a company with no equity securities listed on the Stock Exchange.

“*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).

HOW TO APPLY FOR HONG KONG OFFER SHARES

9. HOW MUCH ARE THE HONG KONG OFFER SHARES

The **WHITE** or **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **HK eIPO White Form** 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.hkeipo.hk or in the **IPO App**.

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Stock Exchange trading fee are 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, please see the section headed “Structure and Conditions of the Global Offering — Price Determination of the Global Offering” of this prospectus.

10. EFFECT OF BAD WEATHER AND/OR EXTREME CONDITIONS ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if:

- a tropical cyclone warning signal number 8 or above; or
- “extreme conditions” caused by a super typhoon; or
- a “black” rainstorm warning

is/are in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Monday, 9 March 2020. Instead they will open between 11:45 a.m. and 12:00 noon on the next Business Day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Monday, 9 March 2020 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 in such event.

HOW TO APPLY FOR HONG KONG OFFER SHARES

11. PUBLICATION OF RESULTS

The Company expects to announce the final Offer Price, the level of indication of interest in the International Placing and the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares on Monday, 16 March 2020 on the Company's website at www.jiuzundigital.com and the website of the Stock Exchange at www.hkexnews.hk.

The results of allocations and the Hong Kong Identity Card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- in the announcement to be posted on the Company's website at www.jiuzundigital.com and the Stock Exchange's website at www.hkexnews.hk by no later than 8:00 a.m. on Monday, 16 March 2020;
- from the designated results of allocations website at www.tricor.com.hk/ipo/result and www.hkeipo.hk/IPOResult/ or from the "Allotment Result" function in the **IPO App** with a "search by ID" function on a 24-hour basis from 8:00 a.m. on Monday, 16 March 2020 to 12:00 midnight on Sunday, 22 March 2020;
- by telephone enquiry line by calling (852) 3691 8488 between 9:00 a.m. and 6:00 p.m. from Monday, 16 March 2020 to Thursday, 19 March 2020;
- in the special allocation results booklets which will be available for inspection during opening hours from Monday, 16 March 2020 to Wednesday, 18 March 2020 at all the receiving bank's designated branches.

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. Please see the section headed "Structure and Conditions of the Global Offering" of this prospectus for details.

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 ALLOTTED OFFER SHARES

You should note the following situations in which the Hong Kong Offer Shares will not be allotted to you:

(i) If your application is revoked:

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or to the **HK eIPO White Form** Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with the Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies Ordinance (as applied by Section 342E of the Companies Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(ii) If our Company or its agents exercise their discretion to reject your application:

Our Company, the Joint Global Coordinators, the **HK eIPO White Form** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

HOW TO APPLY FOR HONG KONG OFFER SHARES

(iii) If the allotment of Hong Kong Offer Shares is void:

The allotment of Hong Kong Offer Shares will be void if the Listing Committee of the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies the Company of that longer period within three weeks of the closing date of the application lists.

(iv) If:

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and International Placing Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your electronic application instructions through the **HK eIPO White Form** service are not completed in accordance with the instructions, terms and conditions on the designated website or in the **IPO App**;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonored upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- our Company or the Joint Global Coordinators believe that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering.

HOW TO APPLY FOR HONG KONG OFFER SHARES

13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum Offer Price of HK\$1.80 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with the section headed “Structure and Conditions of the Global Offering – Conditions of the Global Offering” of this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the 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 Monday, 16 March 2020.

14. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Hong Kong Offer Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the share certificates will be deposited into CCASS as described).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, 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:

- Share certificate(s) for all the Hong Kong Offer Shares allotted to you (for **YELLOW** Application Forms, Share certificates will be deposited into CCASS as described below); and
- 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 per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest). 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(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

HOW TO APPLY FOR HONG KONG OFFER SHARES

Subject to arrangement on despatch/collection of Share certificates and refund monies as mentioned below, any refund cheques and Share certificates are expected to be posted on or around Monday, 16 March 2020. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker's cashier's order(s).

Share certificates will only become valid at 8:00 a.m. on Tuesday, 17 March 2020 provided that the Global Offering has become unconditional and the right of termination as set out in the section headed "Underwriting" of this prospectus has not been exercised. Investors who trade shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.

Personal Collection

(i) If you apply using a WHITE Application Form

If you apply for 1,000,000 or more Hong Kong Offer Shares have provided all information required by your Application Form, you may collect your refund cheque(s) and/or Share certificate(s) from the Hong Kong Branch Share Registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Monday, 16 March 2020 or such other date as notified by us 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 which is eligible for personal collection, your authorized representative must bear 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 Branch Share Registrar.

If you do not collect your refund cheque(s) and/or share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) and/or share certificate(s) will be sent to the address on the relevant Application Form on Monday, 16 March 2020, by ordinary post and at your own risk.

(ii) If you apply using a YELLOW Application Form

If you apply for 1,000,000 Hong Kong Offer Shares or more, please follow the same instructions as described above for collection of your refund cheque(s). If you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on Monday, 16 March 2020, by ordinary post and at your own risk.

HOW TO APPLY FOR HONG KONG OFFER SHARES

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 the designated CCASS Participant's stock account as stated in your Application Form on Monday, 16 March 2020, 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 CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allotted to you with that CCASS participant.

- *If you are applying 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 in the manner as set out in the paragraph headed "11. Publication of Results" of this section. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Monday, 16 March 2020 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 CCASS Internet System.

(iii) If you apply through the HK eIPO White Form service

If you apply for 1,000,000 Hong Kong Offer Shares or more and your application is wholly or partially successful, you may collect your Share certificate(s) from the Hong Kong Branch Share Registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Monday, 16 March 2020, or such other date as notified by our Company on the website of our Company at www.jiuzundigital.com or on the website of the Stock Exchange at www.hkexnews.hk.

If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on Monday, 16 March 2020 by ordinary post at your own risk.

HOW TO APPLY FOR HONG KONG OFFER SHARES

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-Auto Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

(iv) If you apply via Electronic Application Instructions to HKSCC

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 Monday, 16 March 2020, or, on any other date determined by HKSCC or HKSCC Nominees.
- The Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, the Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner specified in "11. Publication of Results" above on Monday, 16 March 2020. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Monday, 16 March 2020 or such other date as determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.

HOW TO APPLY FOR HONG KONG OFFER SHARES

- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Monday, 16 March 2020. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the 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 Monday, 16 March 2020.

15. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second 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 advisers for details of the settlement arrangements as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.



22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

The Directors

Jiu Zun Digital Interactive Entertainment Group Holdings Limited
Lego Corporate Finance Limited

Dear Sirs,

We report on the historical financial information of Jiu Zun Digital Interactive Entertainment Group Holdings Limited (the “Company”) and its subsidiaries (together, the “Group”) set out on pages I-4 to I-61, which comprises the combined 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 nine months ended 30 September 2019 (the “Relevant Periods”), the combined statements of financial position of the Group as at 31 December 2016, 2017 and 2018 and 30 September 2019, and the statements of financial position of the Company as at 31 December 2018 and 30 September 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-61 forms an integral part of this report, which has been prepared for inclusion in the document of the Company dated 27 February 2020 (the “Document”) 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 *Accountants' Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgment, 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 Company as at 31 December 2018 and 30 September 2019 and the combined financial position of the Group as at 31 December 2016, 2017 and 2018 and 30 September 2019, and of the combined financial performance and combined 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 combined statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flows of the Group for the nine months ended 30 September 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 11 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,

Ernst & Young

Certified Public Accountants

Hong Kong

27 February 2020

I. HISTORICAL FINANCIAL INFORMATION**Preparation of 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 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.

COMBINED STATEMENTS OF PROFIT OR LOSS

	Section II Notes	Year ended 31 December			Nine months ended 30 September	
		2016	2017	2018	2018	2019
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
					<i>(unaudited)</i>	
REVENUE	5	139,755	170,654	142,979	120,427	170,792
Cost of sales		(74,656)	(93,898)	(80,660)	(69,404)	(108,004)
Gross profit		65,099	76,756	62,319	51,023	62,788
Other income and gains ...	5	4,153	11,999	2,050	987	1,467
Selling and distribution expenses		(949)	(1,796)	(1,686)	(1,230)	(642)
Administrative expenses ...		(7,180)	(10,325)	(9,864)	(7,390)	(5,689)
Research and development expenses		(8,161)	(8,334)	(6,270)	(4,743)	(4,799)
Reversal of impairment/(impairment) of trade receivables	15	(3,807)	(2,090)	17,273	16,283	(990)
Other expenses		(300)	(4,955)	(4,550)	(3,276)	(9,510)
Finance cost	7	—	—	(569)	(327)	(772)
PROFIT BEFORE TAX ..	6	48,855	61,255	58,703	51,327	41,853
Income tax expense	10	(8,276)	(10,617)	(7,036)	(5,891)	(10,925)
PROFIT FOR THE YEAR/PERIOD		<u>40,579</u>	<u>50,638</u>	<u>51,667</u>	<u>45,436</u>	<u>30,928</u>
Attributable to:						
Owners of the parent ...		36,451	46,633	47,689	42,009	27,667
Non-controlling interests		4,128	4,005	3,978	3,427	3,261
		<u>40,579</u>	<u>50,638</u>	<u>51,667</u>	<u>45,436</u>	<u>30,928</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	12	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

COMBINED STATEMENTS OF COMPREHENSIVE INCOME

	Years ended 31 December			Nine months ended 30 September	
	2016	2017	2018	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(unaudited)</i>	
PROFIT FOR THE YEAR/PERIOD	40,579	50,638	51,667	45,436	30,928
OTHER COMPREHENSIVE INCOME					
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:					
Exchange differences on translation of foreign operations	—	—	—	—	(604)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR/PERIOD	<u>40,579</u>	<u>50,638</u>	<u>51,667</u>	<u>45,436</u>	<u>30,324</u>
Attributable to:					
Owners of the parent	36,451	46,633	47,689	42,009	27,063
Non-controlling interests	<u>4,128</u>	<u>4,005</u>	<u>3,978</u>	<u>3,427</u>	<u>3,261</u>
	<u>40,579</u>	<u>50,638</u>	<u>51,667</u>	<u>45,436</u>	<u>30,324</u>

COMBINED STATEMENTS OF FINANCIAL POSITION

	Section II	As at 31 December			As at 30 September
	Notes	2016	2017	2018	2019
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
NON-CURRENT ASSETS					
Property, plant and equipment . . .	13	305	1,007	684	619
CURRENT ASSETS					
Trade receivables	15	125,723	62,150	41,166	96,280
Prepayments, deposits and other receivables	16	2,970	3,888	17,909	55,502
Due from shareholders	23	–	12,934	13,637	13,589
Financial assets at fair value through profit or loss	17	34,600	–	–	–
Cash and cash equivalents	18	14,645	105,707	89,270	27,610
Total current assets		177,938	184,679	161,982	192,981
CURRENT LIABILITIES					
Trade payables	19	54,535	35,669	15,994	24,013
Contract liabilities	20	–	–	–	2,968
Other payables and accruals	21	12,817	64,681	44,813	25,269
Convertible bonds	22	–	–	15,757	17,058
Due to shareholders	23	1,748	–	–	–
Tax payable		6,886	2,441	1,743	8,415
Total current liabilities		75,986	102,791	78,307	77,723
NET CURRENT ASSETS		101,952	81,888	83,675	115,258
TOTAL ASSETS LESS					
CURRENT LIABILITIES		102,257	82,895	84,359	115,877
NON-CURRENT LIABILITIES					
Deferred tax liabilities	10	–	–	–	1,194
Net assets		102,257	82,895	84,359	114,683
EQUITY					
Equity attributable to owners of the parent					
Issued capital	24	–	–	1	1
Equity component of convertible bonds	22	–	–	1,128	1,128
Reserves	25(a)	95,963	77,496	77,446	104,509
		95,963	77,496	78,575	105,638
Non-controlling interests		6,294	5,399	5,784	9,045
Total equity		102,257	82,895	84,359	114,683

COMBINED STATEMENTS OF CHANGES IN EQUITY

		Attributable to owners of the parent							
Section II Note		Equity component of		Statutory	Exchange	Retained		Non-	
	Issued capital	convertible bonds	Other reserve	reserve funds	fluctuation reserve	profits	Total	controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
			(note 25(a)(i))	(note 25(a)(ii))	(note 25(a)(iii))				
At 1 January 2016	–	–	10,000	6,945	–	42,147	59,092	5,794	64,886
Profit and total comprehensive income for the year	–	–	–	–	–	36,451	36,451	4,128	40,579
Transfer from retained profits	–	–	–	1,082	–	(1,082)	–	–	–
Dividend to a non-controlling shareholder	–	–	–	–	–	–	–	(1,162)	(1,162)
Acquisition of non-controlling interests	28	–	–	–	–	420	420	(2,466)	(2,046)
At 31 December 2016 and at 1 January 2017	–	–	10,000*	8,027*	–*	77,936*	95,963	6,294	102,257
Profit and total comprehensive income for the year	–	–	–	–	–	46,633	46,633	4,005	50,638
Transfer from retained profits	–	–	–	166	–	(166)	–	–	–
Dividends paid by a subsidiary to the then shareholders	11	–	–	–	–	(65,100)	(65,100)	–	(65,100)
Dividends to a non-controlling shareholder		–	–	–	–	–	–	(4,900)	(4,900)
At 31 December 2017	–	–	10,000*	8,193*	–*	59,303*	77,496	5,399	82,895
Effect of adoption of HKFRS 9	2.2	–	–	–	–	(1,239)	(1,239)	(93)	(1,332)
At 1 January 2018 (restated)	–	–	10,000	8,193	–	58,064	76,257	5,306	81,563
Issue of shares	24	1	–	–	–	–	1	–	1
Profit and total comprehensive income for the year	–	–	–	–	–	47,689	47,689	3,978	51,667
Transfer from retained profits	–	–	–	672	–	(672)	–	–	–
Issue of convertible bonds	22	–	1,128	–	–	–	1,128	–	1,128
Dividend paid by a subsidiary to the then shareholders	11	–	–	–	–	(46,500)	(46,500)	–	(46,500)
Dividend to a non-controlling shareholder		–	–	–	–	–	–	(3,500)	(3,500)
At 31 December 2018	1	1,128	10,000*	8,865*	–*	58,581*	78,575	5,784	84,359

Attributable to owners of the parent									
Section II Notes	Issued capital	Equity component of convertible bonds	Other reserve	Statutory reserve funds	Exchange fluctuation reserve	Retained profits	Total	Non- controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(note 22)	(note 25(a)(i))	(note 25(a)(ii))	(note 25(a)(iii))				
At 31 December 2017	–	–	10,000	8,193	–	59,303	77,496	5,399	82,895
Effect of adoption of HKFRS 9	2.2	–	–	–	–	(1,239)	(1,239)	(93)	(1,332)
At 1 January 2018 (restated)	–	–	10,000	8,193	–	58,064	76,257	5,306	81,563
Issue of shares (unaudited)	24	1	–	–	–	–	1	–	1
Profit and total comprehensive income for the period (unaudited)		–	–	–	–	42,009	42,009	3,427	45,436
Transfer from retained profits (unaudited)		–	–	672	–	(672)	–	–	–
Issue of convertible bonds (unaudited)	22	–	1,128	–	–	–	1,128	–	1,128
Dividend paid by a subsidiary to the then shareholders (unaudited)	11	–	–	–	–	(46,500)	(46,500)	–	(46,500)
Dividend to a non-controlling shareholder (unaudited)		–	–	–	–	–	–	(3,500)	(3,500)
At 30 September 2018 (unaudited)		<u>1</u>	<u>1,128</u>	<u>10,000</u>	<u>8,865</u>	<u>52,901</u>	<u>72,895</u>	<u>5,233</u>	<u>78,128</u>
At 1 January 2019		1	1,128	10,000	8,865	58,581	78,575	5,784	84,359
Profit for the period		–	–	–	–	27,667	27,667	3,261	30,928
Other comprehensive income for the period: Exchange differences on translation of foreign operations		–	–	–	(604)	–	(604)	–	(604)
Total comprehensive income for the period		–	–	–	(604)	27,667	27,063	3,261	30,324
Transfer from retained profits		–	–	500	–	(500)	–	–	–
Disposal of subsidiaries		–	–	(780)	–	780	–	–	–
At 30 September 2019		<u>1</u>	<u>1,128</u>	<u>10,000*</u>	<u>8,585*</u>	<u>(604)*</u>	<u>86,528*</u>	<u>9,045</u>	<u>114,683</u>

* These reserve accounts comprise the combined reserves of RMB95,963,000, RMB77,496,000, RMB77,446,000 and RMB104,509,000 in the combined statements of financial position as at 31 December 2016, 2017 and 2018 and 30 September 2019, respectively.

COMBINED STATEMENTS OF CASH FLOWS

	Section II	Year ended 31 December			Nine months ended 30 September	
	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		48,855	61,255	58,703	51,327	41,853
Adjustments for:						
Finance cost	7	—	—	569	327	772
Interest income	5	(84)	(1,952)	(655)	(269)	(581)
Depreciation	6	73	109	332	250	254
Impairment/(reversal of impairment) of trade receivables	6	3,807	2,090	(17,273)	(16,283)	990
Impairment of deposits	6	—	—	—	—	661
Gain on disposal of subsidiaries	5	—	—	—	—	(497)
Gain on bargain purchase	5	(243)	—	—	—	—
		52,408	61,502	41,676	35,352	43,452
Decrease/(increase) in trade receivables		(11,627)	61,483	36,925	18,181	(58,315)
Increase in prepayments, deposits and other receivables		(2,218)	(1,449)	(14,021)	(3,704)	(92,677)
Increase/(decrease) in trade payables		18,484	(18,866)	(19,675)	(10,883)	10,449
Increase in contract liabilities		—	—	—	—	2,968
Increase/(decrease) in other payables and accruals		5,481	1,865	(3,368)	(4,517)	354
Changes in balances with shareholders		(9,665)	(14,682)	(1,105)	(1,618)	48
Cash generated from/(used in) operations		52,863	89,853	40,432	32,811	(93,721)
Taxes paid		(14,551)	(15,062)	(7,734)	(7,011)	(3,059)
Net cash flows from/(used in) operating activities .		38,312	74,791	32,698	25,800	(96,780)
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest received		84	1,952	655	269	581
Purchases of items of property, plant and equipment		(194)	(813)	(9)	(9)	(221)
Purchases of financial assets at fair value through profit or loss		(104,990)	(302,750)	(288,000)	(50,000)	(223,550)
Proceeds from disposals of financial assets at fair value through profit or loss		70,390	337,350	288,000	50,000	223,550
Acquisition of a subsidiary	26	47	—	—	—	—
Disposal of subsidiaries	27	—	532	—	—	51,835
Net cash flows from/(used in) investing activities .		(34,663)	36,271	646	260	52,195

	Section II	Year ended 31 December			Nine months ended 30	
					September	
		2016	2017	2018	2018	2019
	Notes	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(unaudited)	
CASH FLOWS FROM FINANCING						
ACTIVITIES						
Proceeds from issue of convertible bonds	22	–	–	15,505	15,505	–
Acquisition of non-controlling interests	28	(2,046)	–	–	–	–
Dividends paid by a subsidiary to the then						
shareholders		–	(18,600)	(66,500)	(46,500)	(17,000)
Dividends paid to a non-controlling						
shareholder		(1,162)	(1,400)	–	–	–
Net cash flows used in financing activities		(3,208)	(20,000)	(50,995)	(30,995)	(17,000)
NET INCREASE/(DECREASE)						
IN CASH AND						
CASH EQUIVALENTS		441	91,062	(17,651)	(4,935)	(61,585)
Cash and cash equivalents at						
beginning of year/period		14,204	14,645	105,707	105,707	89,270
Effect of foreign exchange						
rate changes, net		–	–	1,214	1,214	(75)
CASH AND CASH EQUIVALENTS						
AT END OF YEAR/PERIOD		14,645	105,707	89,270	101,986	27,610
ANALYSIS OF BALANCE OF						
CASH AND CASH EQUIVALENTS						
Cash and bank balances	18	14,645	105,707	89,270	101,986	27,610

STATEMENTS OF FINANCIAL POSITION OF THE COMPANY

	<i>Section II</i>	31 December	30 September
	<i>Notes</i>	2018	2019
		<i>RMB'000</i>	<i>RMB'000</i>
NON-CURRENT ASSET			
Investment in a subsidiary ·····	14	—*	—*
CURRENT ASSET			
Due from a subsidiary ·····	14	—	15,931
Cash and cash equivalents ·····	18	16,719	1,389
Total current assets ·····		16,719	17,320
CURRENT LIABILITIES			
Convertible bonds ·····	22	15,757	17,058
Due to shareholders ·····	23	402	449
Due to a subsidiary ·····	14	—*	—*
Total current liabilities ·····		16,159	17,507
NET CURRENT ASSETS/(LIABILITIES)		560	(187)
Net assets/(liabilities) ·····		560	(187)
EQUITY			
Issued capital ·····	24	1	1
Equity component of convertible bonds ·····	22	1,128	1,128
Reserves ·····	25(b)	(569)	(1,316)
Total equity ·····		560	(187)

* Amounts less than RMB1,000

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. CORPORATE AND GROUP INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands. The address of the registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The principal place of business of the Company is located at Suite 1801, R&F To-win Building, 30 Huaxia Road, Zhujiang New Town, Tianhe District, Guangzhou, People's Republic of China ("PRC").

The Company is an investment holding company. During the Relevant Periods, the Company's subsidiaries were principally engaged in the development and operation of mobile games and the distribution of digital media content in Mainland China.

The Company and its subsidiaries now comprising the Group underwent the Reorganization as set out in the paragraphs headed "Corporate Reorganization" in the section headed "History, Reorganization and Group Structure" in the Document. Apart from the Reorganization, the Company has not commenced any business or operation since its incorporation.

As at the end of the Relevant Periods, the Company had direct and indirect interests in its subsidiaries, all of which are private limited liability companies (or, if incorporated outside Hong Kong, have substantially similar characteristics to a private company incorporated in Hong Kong), the particulars of which are set out below:

Name	Place and date of incorporation/registration and place of operations	Nominal value of issued ordinary/registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Emperor Interactive Entertainment Development Company Limited (<i>note (a)</i>)	British Virgins Islands 11 January 2018	United States dollar ("US\$")1	100	–	Investment holding
Jiu Zun Hu Yu Entertainment Technology Company Limited (<i>note (e)</i>)*	Hong Kong 27 February 2018	Hong Kong dollar ("HK\$")1	–	100	Investment holding
Guangzhou Jiu Zun Interactive Entertainment Company Limited ("WFOE") 廣州市九尊互娛科技發展有限公司 (<i>note (a) and (f)</i>)*	PRC/Mainland China 31 May 2018	HK\$1,000,000	–	100	Investment holding
Guangzhou Jiu Zun Digital Entertainment Technology Development Company Limited ("Guangzhou Jiu Zun") 廣州市九尊數娛科技發展有限公司 (<i>note (a)</i>)*	PRC/Mainland China 13 April 2018	RMB9,300,000	–	100	Investment holding
Guangzhou Family Doctor Information Technology Company Limited ("Family Doctor") 廣州家庭醫生 信息技術有限公司 (<i>note (a)</i>)*	PRC/Mainland China 5 May 2011	RMB10,000,000	–	93	Development and operation of mobile games and distribution of digital media content
Guangzhou Zhile Information Technology Company Limited 廣州市指樂信息技術有限公司 (<i>note (a)</i>)*	PRC/Mainland China 28 March 2012	RMB10,000,000	–	93	Development and operation of mobile games
Guangzhou Zhangbao Information Technology Company Limited 廣州市掌寶信息技術有限公司 (<i>note (a)</i>)*	PRC/Mainland China 16 May 2012	RMB1,000,000	–	93	Distribution of digital media content

Name	Place and date of incorporation/registration and place of operations	Nominal value of issued ordinary/registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Guangzhou Jinyi Electronic Technology Company Limited 廣州市金奕電子科技有限公司 (note (a))*	PRC/Mainland China 23 May 2005	RMB1,000,000	–	93	Development and operation of mobile game and distribution of digital media content
Shantou Hanwei Network Technology Company Limited 汕頭市漢威網絡科技有限公司 (note (a) and note (d))*	PRC/Mainland China 6 July 2005	RMB1,000,000	–	–	Development and operation of mobile games
Guangzhou Family Communications Technology Company Limited (“Family Communications”) 廣州市家庭通信科技有限公司 (note (a))*	PRC/Mainland China 11 June 2012	RMB1,000,000	–	93	Development and operation of mobile games and distribution of digital media content
Guangzhou Lingshe Information Technology Company Limited 廣州靈蛇信息技術有限公司 (note (a))*	PRC/Mainland China 10 February 2015	RMB1,000,000	–	93	Development and operation of mobile games
Guangzhou Longhang Information Technology Company Limited 廣州龍行信息技術有限公司 (note (a))*	PRC/Mainland China 10 February 2015	RMB1,000,000	–	93	Development and operation of mobile games
Guangzhou Longcan Network Technology Company Limited 廣州隆燦網絡科技有限公司 (note (a))*	PRC/Mainland China 28 April 2015	RMB1,000,000	–	93	Development and operation of mobile games and distribution of digital media content
Guangzhou Shuo Xiao Network Technology Company Limited 廣州朔曉網絡科技有限公司 (note (a) and note (d))*	PRC/Mainland China 28 April 2015	RMB1,000,000	–	–	Development and operation of mobile games
Guangzhou Honghuan Network Technology Company Limited 廣州虹歡網絡科技有限公司 (note (a))*	PRC/Mainland China 29 April 2015	RMB1,000,000	–	93	Development and operation of mobile games
Guangzhou Wangee Communications Technology Company Limited 廣州旺策通信科技有限公司 (note (a) and note (d))*	PRC/Mainland China 28 April 2015	RMB1,000,000	–	–	Development and operation of mobile games
Shangxi Yiliheng Technology Limited (“Shanxi Yiliheng”) 山西意利恒科技有限公司 (note (a), note (b) and note (d))*	PRC/Mainland China 23 January 2013	RMB1,000,000	–	–	Development and operation of mobile games
Guangzhou Qingchang Information Technology Company Limited 廣州清昌信息科技有限公司 (note (a))*	PRC/Mainland China 29 April 2015	RMB1,000,000	–	93	Development and operation of mobile games

Name	Place and date of incorporation/registration and place of operations	Nominal value of issued ordinary/registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Guangzhou Linqiu Communications Technology Company Limited 廣州臨秋信息科技有限公司 (note (a) and note (d))*	PRC/Mainland China 29 April 2015	RMB1,000,000	–	–	Development and operation of mobile games
Guangzhou Zhuoqiao Communications Technology Company Limited 廣州卓巧信息科技有限公司 (note (a) and note (d))*	PRC/Mainland China 29 April 2015	RMB1,000,000	–	–	Development and operation of mobile games
Guangzhou Yanming Communications Technology Company Limited 廣州言明通信科技有限公司 (note (a))*	PRC/Mainland China 28 April 2015	RMB1,000,000	–	93	Development and operation of mobile games and distribution of digital media content
Guangzhou Nianxi Network Technology Company Limited 廣州年喜網絡科技有限公司 (note (a))*	PRC/Mainland China 28 April 2015	RMB10,000,000	–	93	Development and operation of mobile games and distribution of digital media content
Guangzhou Aiqin Network Technology Company Limited 廣州愛勤網絡科技有限公司 (note (a))*	PRC/Mainland China 28 April 2015	RMB10,000,000	–	93	Development and operation of mobile games
Guangzhou Xiqiang Information Technology Company Limited 廣州喜強信息科技有限公司 (note (a) and note (d))*	PRC/Mainland China 28 April 2015	RMB10,000,000	–	–	Development and operation of mobile games
Guangzhou Youqiang Information Technology Company Limited 廣州友強信息科技有限公司 (note (a) and note (d))*	PRC/Mainland China 28 April 2015	RMB10,000,000	–	–	Development and operation of mobile games
Guangzhou Qinain Information Technology Company Limited 廣州勤愛通信科技有限公司 (note (a) and note (d))*	PRC/Mainland China 28 April 2015	RMB10,000,000	–	–	Development and operation of mobile games
Guangzhou Fengxi Game Software Technology Company Limited ("Guangzhou Fengxi") 廣州市風襲遊戲軟件科技有限公司 (note (a))*	PRC/Mainland China 31 January 2015	RMB1,000,000	–	93	Development and operation of mobile games and distribution of digital media content
Guangzhou Haosi Information Technology Company Limited 廣州豪斯信息科技有限公司 (note (a))*	PRC/Mainland China 10 February 2015	RMB1,000,000	–	93	Development and operation of mobile games and distribution of digital media content
Guangzhou Candong Communications Technology Company Limited 廣州燦東通信科技有限公司 (note (a))*	PRC/Mainland China 28 April 2015	RMB1,000,000	–	93	Development and operation of mobile games

Name	Place and date of incorporation/registration and place of operations	Nominal value of issued ordinary/registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Guangzhou Shuoxin Network Technology Company Limited 廣州朔信網絡科技有限公司 (note (a) and note (d))*	PRC/Mainland China 29 April 2015	RMB1,000,000	–	–	Development and operation of mobile games
Guangzhou Mayu Information Technology Company Limited 廣州瑪語信息科技有限公司 (note (a))*	PRC/Mainland China 29 April 2015	RMB1,000,000	–	93	Development and operation of mobile games and distribution of digital media content
Guangzhou Yuansai Network Technology Company Limited 廣州圓賽網絡科技有限公司 (note (a) and note (d))*	PRC/Mainland China 28 April 2015	RMB1,000,000	–	–	Development and operation of mobile games
Guangzhou Kairui Communications Technology Company Limited ("Guangzhou Kairui") 廣州凱瑞通訊科技有限公司 (note (a))*	PRC/Mainland China 30 March 2012	RMB1,010,000	–	93	Development and operation of mobile games and distribution of digital media content
Changsha Leyou Information Technology Company Limited 長沙樂遊信息科技有限公司 (note (a) and note (d))*	PRC/Mainland China 5 May 2014	RMB1,000,000	–	–	Development and operation of mobile games
Guangzhou Family Electronic Technology Company Limited 廣州市家庭電子科技有限公司 (note (a))*	PRC/Mainland China 31 March 2012	RMB10,000,000	–	93	Development and operation of mobile games and distribution of digital media content
Guangzhou Fanqi Communications Technology Company Limited 廣州凡齊通信科技有限公司 (note (a))*	PRC/Mainland China 28 April 2015	RMB1,000,000	–	93	Distribution of digital media content
Changsha Zigui Information Technology Company Limited 廣州紫貴信息科技有限公司 (note (a) and note (d))*	PRC/Mainland China 28 April 2015	RMB1,000,000	–	–	Development and operation of mobile games
Guangzhou Zhuqun Network Technology Company Limited 廣州竹群網絡科技有限公司 (note (a))*	PRC/Mainland China 28 April 2015	RMB1,000,000	–	93	Development and operation of mobile games and distribution of digital media content
Guangzhou Xinglan Network Technology Company Limited 廣州興藍網絡科技有限公司 (note (a) and note (d))*	PRC/Mainland China 28 April 2015	RMB1,000,000	–	–	Development and operation of mobile games
Guangzhou Fanming Communications Technology Company Limited 廣州帆銘通信科技有限公司 (note (a))*	PRC/Mainland China 29 April 2015	RMB1,000,000	–	93	Development and operation of mobile games

Name	Place and date of incorporation/registration and place of operations	Nominal value of issued ordinary/registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Guangzhou Qiai Communications Technology Company Limited 廣州齊艾信息科技有限公司 (note (a) and note (d))*	PRC/Mainland China 28 April 2015	RMB1,000,000	–	–	Development and operation of mobile games
Guangzhou Ziyang Communications Technology Company Limited 廣州資顏通信科技有限公司 (note (a) and note (d))*	PRC/Mainland China 28 April 2015	RMB1,000,000	–	–	Development and operation of mobile games
Guangzhou Doujie Communications Technology Company Limited 廣州門捷通信科技有限公司 (note (a) and note (d))*	PRC/Mainland China 28 April 2015	RMB1,000,000	–	–	Development and operation of mobile games
Guangzhou Fanliang Communications Technology Company Limited 廣州凡亮信息科技有限公司 (note (a) and note (d))*	PRC/Mainland China 28 April 2015	RMB1,000,000	–	–	Development and operation of mobile games
Guangzhou Pengzi Network Technology Company Limited 廣州朋資網絡科技有限公司 (note (a) and note (d))*	PRC/Mainland China 29 April 2015	RMB1,000,000	–	–	Development and operation of mobile games
Guangzhou Ningqi Communications Technology Company Limited 廣州寧啟信息科技有限公司 (note (a) and note (d))*	PRC/Mainland China 28 April 2015	RMB1,000,000	–	–	Development and operation of mobile games and distribution of digital media content
Guangzhou Xingzhou Information Technology Company Limited 廣州行舟信息科技有限公司 (note (a) and note (d))*	PRC/Mainland China 29 April 2015	RMB1,000,000	–	–	Development and operation of mobile games
Guangzhou Chuanyi Information Technology Company Limited 廣州川益信息科技有限公司 (note (a) and note (d))*	PRC/Mainland China 28 April 2015	RMB1,000,000	–	–	Development and operation of mobile games
Guangzhou Yuneng Communications Technology Company Limited 廣州裕能通信科技有限公司 (note (a))*	PRC/Mainland China 29 April 2015	RMB1,000,000	–	93	Development and operation of mobile games
Guangzhou Hengmiao Communications Technology Company Limited 廣州衡妙通信科技有限公司 (note (a) and note (d))*	PRC/Mainland China 29 April 2015	RMB1,000,000	–	–	Development and operation of mobile games
Guangzhou Zhantao Network Technology Company Limited 廣州湛陶網絡科技有限公司 (note (a) and note (d))*	PRC/Mainland China 28 April 2015	RMB1,000,000	–	–	Development and operation of mobile games
Guangzhou Mingqiu Communications Technology Company Limited 廣州銘秋通信科技有限公司 (note (a) and note (d))*	PRC/Mainland China 28 April 2015	RMB1,000,000	–	–	Development and operation of mobile games and distribution of digital media content

Name	Place and date of incorporation/registration and place of operations	Nominal value of issued ordinary/registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Guangzhou Qingcai Network Technology Company Limited 廣州輕彩網絡科技有限公司 (note (a))*	PRC/Mainland China 28 April 2015	RMB1,000,000	–	93	Development and operation of mobile games
Wuhan Family Doctor Infinite Information Technology Company Limited 武漢家醫無限信息技術有限公司 (note (a) and note (d))*	PRC/Mainland China 6 July 2011	RMB1,000,000	–	–	Development and operation of mobile games
Beijing Maiqi Vision Cultural Communication Company Limited 北京麥琪視覺文化傳播有限公司 (note (a) and note (d))*	PRC/Mainland China 12 April 2010	RMB300,000	–	–	Development and operation of mobile games and distribution of digital media content
Beijing Fengyun Wanxiang Technology Company Limited 北京風雲萬象科技有限公司 (note (a))*	PRC/Mainland China 9 December 2014	RMB10,000,000	–	93	Development and operation of mobile games and distribution of digital media content
Guangzhou Wamai Software Technology Company Limited 廣州市蛙麥軟件科技有限公司 (note (a) and note (d))*	PRC/Mainland China 21 April 2015	RMB500,000	–	–	Development and operation of mobile games
Beijing Xinlian Information Technology Company Limited 北京新連信息技術有限公司 (note (a))*	PRC/Mainland China 5 November 2014	RMB10,000,000	–	93	Development and operation of mobile games

* The English names of these entities registered in the PRC represent the best efforts made by management of the Company to directly translate their Chinese names as they did not register any official English name.

Notes:

- (a) No audited financial statements have been prepared for these companies for the Relevant Periods (or since the date of incorporation/registration, where later than the beginning of the Relevant Periods), as these entities were not subject to any statutory audit requirements under the relevant rules and regulations in their jurisdiction of incorporation/registration.
- (b) During the year ended 31 December 2016, the Group acquired Shanxi Yiliheng, from an independent third party. Further details of the acquisition are included in note 26 to the Historical Financial Information.
- (c) During the year ended 31 December 2017, the Group disposed of Guangzhou Medical e-Commerce Company Limited 廣州醫米電子商務有限公司 and Guangzhou Medical Network Technology Company Limited 廣州醫米網絡科技有限公司 to independent third parties. Further details of these disposals are included in note 27 to the Historical Financial Information.
- (d) During the nine months period ended 30 September 2019, the Group disposed of the entire equity interest of these subsidiaries. Further details are included in note 27 to the Historical Financial Information.
- (e) No audited financial statements have been prepared for this company since its incorporation/registration.
- (f) The WFOE is registered as a wholly-foreign-owned enterprise under PRC law.

2.1 BASIS OF PRESENTATION

Pursuant to the Reorganization, as more fully explained in the paragraphs headed “Corporate Reorganization” in the section headed “History, Reorganization and Group Structure” in the Document, the Company became the holding company of the companies now comprising the Group on 23 February 2019. The Reorganization mainly involved (i) the establishment of Guangzhou Jiu Zun and the transfer of equity interests in Family Doctor from the then certain shareholders of Family Doctor (collectively, the “Relevant Shareholders”) to Guangzhou Jiu Zun; (ii) the entering into Structured Contracts arrangements as detailed below; and (iii) the establishment of the WFOE and the incorporation/establishment of the Company and other investment holding companies and, inserting the Company at the top of the Group. The Reorganization has not resulted in any changes of economic substances of the businesses of the Group before and after the Reorganization. Accordingly, for the purpose of this report, the Historical Financial Information for the Relevant Periods has been presented as a continuation of Family Doctor and its subsidiaries by applying the pooling of interests method as if the Reorganization had been completed at the beginning of the Relevant Periods.

Equity interests in subsidiaries and/or businesses held by parties other than the Relevant Shareholders, and changes therein, prior to the Reorganization are presented as non-controlling interests in equity in applying the pooling of interests method.

The prevailing PRC laws and regulations restrict foreign ownership of companies that provide Internet cultural business, which include activities and businesses operated by the Group. The Group historically engaged in the development and operation of mobile games and the distribution of digital media content in Mainland China through Family Doctor and its subsidiaries.

In order to continue to conduct the development and operation of mobile games and the distribution of digital media content in Mainland China, while asserting control over the operations, and enjoying economic benefits of Guangzhou Jiu Zun and its subsidiaries (collectively, the “PRC Operating Entities”), WFOE entered into a series of structured contracts (the “Structured Contracts”) with Guangzhou Jiu Zun and the shareholders of Guangzhou Jiu Zun on 23 February 2019. The Structured Contracts enable WFOE to exercise effective control over the PRC Operating Entities and, accordingly, WFOE has rights to variable returns from its involvement with the PRC Operating Entities and has the ability to affect those returns through its power over the PRC Operating Entities. Accordingly, the Company regards the PRC Operating Entities as indirect subsidiaries for the purpose of the Historical Financial Information and the historical financial information of the PRC Operating Entities are combined in the Historical Financial Information for the Relevant Periods. Details of the Structured Contracts are disclosed in the section headed “Contractual Arrangements” in the Document.

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 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, together with the relevant transitional provisions, have been early adopted by the Group in the preparation of the Historical Financial Information throughout the Relevant Periods, except for HKFRS 9 *Financial Instruments* (“HKFRS 9”) which is adopted by the Group from 1 January 2018.

The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group has adopted HKFRS 9 from 1 January 2018. The Group recognized transition adjustments against the opening balance of equity at 1 January 2018 and has not restated prior years’ financial information. Therefore, the financial information from 1 January 2016 to 31 December 2017 which is reported under HKAS 39 *Financial Instruments: Recognition and Measurement* (“HKAS 39”) is not comparable to the information presented for the year ended 31 December 2018 and period ended 30 September 2019.

The principal effects of HKFRS 9 are as follows:

The adoption of HKFRS 9 has had no significant impact on the classification and measurement of the Group's financial instruments. The impacts arising from the adoption of HKFRS 9 relate to the impairment requirements.

HKFRS 9 requires an impairment on debt instruments recorded at amortized cost that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group has applied the simplified approach and recorded lifetime expected credit losses of trade receivables both on a specific and collective basis according to management's assessment of the recoverability of an individual receivable. Differences arising from the adoption of HKFRS 9 have been recognized directly in retained profits as of 1 January 2018 and the affected financial statements items are disclosed below:

Combined Statement of Financial Position	Closing balance at 31 December 2017 (under HKAS 39)	Restatement adjustment on adoption of HKFRS 9	Opening balance at 1 January 2018 (under HKFRS 9)
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Assets			
Trade receivables	62,150	(1,332)	60,818
Equity			
Reserves	77,496	(1,239)	76,257
Non-controlling interests	5,399	(93)	5,306

The reconciliation of the ending impairment allowance in accordance with HKAS 39 to the opening loss allowance determined in accordance with HKFRS 9 is set out in note 15.

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</i> ¹
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ³
HKFRS 17	<i>Insurance Contracts</i> ²
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i> ¹

¹ Effective for annual periods beginning on or after 1 January 2020

² Effective for annual periods beginning on or after 1 January 2021

³ No mandatory effective date yet determined but available for adoption

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore,

the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020.

Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Historical Financial Information.

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 Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognizes (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognizes (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognized in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

Business combinations other than common control combinations

Business combinations other than acquisitions of subsidiaries under common control 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 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

The Group measures its financial asset at fair value through profit or loss at fair value at the end of each reporting period. 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.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized 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 recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than 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 statement of 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 reporting period as to whether there is an indication that previously recognized impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognized impairment loss of an asset 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 statement of 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 or 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 personnel services to the Group or to the parent of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant 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, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of 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, plant 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, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Furniture, fixtures and office equipment	20% to 33%
Motor vehicle	20%

Where parts of an item of property, plant 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, plant 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 statement of profit or loss in the year the asset is derecognized is the difference between the net sales proceeds and the carrying amount of the relevant asset.

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 its 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 ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Short-term leases

The Group applies the short-term lease recognition exemption to its short-term leases of office premises and staff quarters (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). Lease payments on short-term leases are recognized as expense on a straight-line basis over the lease term.

Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018)***Initial recognition and measurement***

Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income, 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 of not adjusting the effect of a significant financing component, 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 accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortized cost or fair value through other comprehensive income, 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 recognized 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 amortized cost (debt instruments)

The Group measures financial assets at amortized 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 amortized cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognized in the statement of profit or loss when the asset is derecognized, modified or impaired.

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 amortized 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 recognized in the statement of profit or loss.

Investments and other financial assets (policies under HKAS 39 applicable before 1 January 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss or loans and receivables, as appropriate. When financial assets are recognized initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognized 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 fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

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 recognized in the statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognized in accordance with the policies set out for "Revenue recognition" below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortized cost using the effective interest rate method less any allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortization and the loss arising from impairment are recognized in the statement of profit or loss.

Derecognition of financial assets (policies under HKFRS 9 applicable from 1 January 2018 and policies under HKAS 39 applicable before 1 January 2018)

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the Group's combined 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 risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognizes 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 (policies under HKFRS 9 applicable from 1 January 2018)

The Group recognizes an allowance for expected credit losses ("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 recognized 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 amortized 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 |

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 recognizes 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.

Impairment of financial assets (policies under HKAS 39 applicable before 1 January 2018)

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial Reorganization and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortized cost

For financial assets carried at amortized cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognized in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to the statement of profit or loss.

Financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)***Initial recognition and measurement***

Financial liabilities are classified, at initial recognition, as loans and borrowings.

All financial liabilities are recognized initially at fair value and net of directly attributable transaction costs.

Subsequent measurement of loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized 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 recognized in the statement of profit or loss when the liabilities are derecognized as well as through the effective interest rate amortization process.

Amortized 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 amortization is recognized in the statement of profit or loss.

Convertible bonds

The component of convertible bonds that exhibits characteristics of a liability is recognized as a liability in the statement of financial position, net of transaction costs. On issuance of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a long term liability on the amortized cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognized and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of proceeds to the liability and equity components when the instruments are first recognized.

Derecognition of financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

A financial liability is derecognized when the obligation under the liability is discharged or canceled, 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 recognized in the statement of profit or loss.

Offsetting of financial instruments (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

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 recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Cash and cash equivalents

For the purpose of the combined statement 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 combined statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognized when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognized for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is recognized in the statement of profit or loss.

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 the reporting period, taking into consideration interpretations and practices prevailing in the countries/jurisdictions in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the 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 future taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilized, 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 utilized.

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 utilized. 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 realize 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.

Revenue recognition***Revenue from contracts with customers***

Revenue from contracts with customers is recognized 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.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognized will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognized under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

(a) Mobile game development and operation

The Group's mobile games are played on individual mobile devices and allow players to play for free. Players can purchase in-game items and premium features, commonly known as virtual items, to enhance their game-playing experience. The Group distributes its mobile games through cooperation with various third-party game distribution platforms, including mobile operators, online application stores and mobile game portals, and derives its revenue from sales of in-game virtual items. The third-party platforms generally are responsible for distribution, marketing, platform maintenance and payment collections from players. Players purchase the Group's in-game virtual items through the platforms' own charging systems by remitting the payment directly to the platforms.

For single player mobile games, since they are downloaded and are fully functional once installed on each individual mobile device, the Group does not have the obligation for game operation and maintenance once the game is downloaded and neither has the access to the game data of each mobile device. Revenue is recognized upon the purchase of in-game items and premium features by players and all other criteria for revenue recognition are met.

For multi-player mobile games where the Group is acting as a principal, upon the sales of the in-game items and premium features, the Group typically has an implied obligation to provide the service which enables the virtual items to be consumed. As a result, the payments received from the sales of the in-game items and premium features are initially included in contract liabilities in the combined statement of financial position and are recognized as revenue subsequently only when the services have been rendered. The Group recognizes the revenues ratably over the estimated average playing period of paying players, starting from the time when virtual items are delivered to the player's accounts and all other revenues recognition criteria are met.

Third-party platforms may offer various discounts or incentives from time to time to players purchasing in-game virtual items through their platforms. The actual prices paid by individual players may be lower than the standard prices of virtual items. Information relating to such discounts or incentives are not available to the Group. Accordingly, the Group is unable to determine the gross amount paid by the players to these platforms. For revenue related to these platforms, it is measured at the fair value of the consideration received and receivable, which is the net amount from these third-party platforms.

(b) Digital media content distribution

The Group distributes its digital media content through cooperation with various third-party distribution platforms, including mobile operators and online application stores, and derives its revenue from the sale of digital media content. The purchasers of the Group's digital media content generally purchase specific digital media content and cannot cancel the purchase once made. The purchasers can pay for their purchases through third-party distribution platforms. The purchased content usually has no expiry period. The revenue from purchase of digital media content is recognized at the time of purchase by the purchaser as the Group does not have further obligation after providing the content to the purchaser upon purchase and all other criteria for revenue recognition are met.

Third-party platforms may offer various discounts or incentives from time to time to purchasers of the Group's digital media content using their platforms. The actual price paid by individual purchaser may be lower than the standard price of digital media content. Information relating to such discount or incentive is not available to the Group. Accordingly, the Group is unable to determine the gross amount paid by the purchasers to these platforms. For revenue related to these platforms, it is measured at the fair value of the consideration received and receivable, which is the net amount from these third-party platforms.

(c) Information services

Information services revenue is derived principally from information services, including online advertising arrangements. The Group enters into arrangements with advertisers or advertisement agents to allow them to place advertisements in particular areas of the Group's games. Information services revenue is recognized either ratably over the displaying period of the advertisement or upon a particular action by players, i.e., click, download or activate.

(d) Consultancy services income

Consultancy services income is recognized when the relevant services have been rendered.

(e) Game licensing income

The Group receives game licensing income from third-party licensees in exchange for the operation of the Group's self-developed games. The game licensing income is recognized ratably over the game license period.

(f) 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 asset.

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the 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.

Employee benefits***Pension scheme***

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The PRC subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

Dividends

Final dividends are recognized as a liability when they are approved by the shareholders in a general meeting.

Interim dividends are simultaneously proposed and declared, when the entity's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognized immediately as a liability when they are proposed and declared.

Foreign currencies

The Historical Financial Information is presented in RMB, which is different from the Company's functional currency, HK\$. As the major revenues and assets of the Group are derived from the operations in the PRC, RMB is chosen as the presentation currency to present the Historical Financial Information. 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 statement of 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 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 RMB at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into RMB at weighted average exchange rates for the year.

The resulting exchange differences are recognized 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 recognized in the statement of profit or loss.

For the purpose of the combined 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.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Group's Historical Financial Information 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.

Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, 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 development and operation and digital media content distribution in the PRC, which falls in the scope of Internet cultural business 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 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.

Principal vs agent

The Group evaluates agreements with distribution channel providers and settlement agents in order to determine whether the Group acts as the principal in the arrangement with each party respectively, which it considers in determining if relevant revenue should be reported gross or net of the predetermined amount of the proceeds shared with them.

The determination of whether to record the revenue gross or net is based on an assessment of various factors, including, but not limited to, whether the Group (i) is the primary obligor in the arrangement; (ii) changes the product or performs part of the services; (iii) has latitude in establishing the selling price; (iv) has involvement in the determination of product and service specifications. The assessment is performed for all of the Group's mobile games.

During the Relevant Periods, the Group took primary responsibilities for game operation, providing customer services and controlling games and services. Accordingly, the Group recorded the revenue from mobile game development and operation on a gross basis after deduction of certain percentage of gross billings retained by third party platforms. Services fee paid to distribution channel providers and settlement agents are recorded as cost of sales.

Third-party platforms (including settlement agents) may offer various discounts or incentives from time to time to players purchasing in-game virtual items through their platforms. The actual prices paid by individual players may be lower than the standard prices of virtual items. Information relating to such discounts or incentives are not available to the Group. Accordingly, the Group is unable to determine the gross amount paid by the players to these platforms. For revenue related to these platforms, it is measured at the fair value of the consideration received and receivable, which is the net amount from these third-party platforms.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Provision for expected credit losses of receivables and deposits and other receivables

The Group uses a provision matrix to calculate ECLs for trade receivables and deposits and other receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by customer type and rating).

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. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. 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 deposits and other receivables is disclosed in note 15 and note 16 to the Historical Financial Information, respectively.

Estimates of average player period of paying players

The Group recognizes the revenue from multi-player mobile games ratably over the estimated average player period of paying players for durable virtual items and the consumable virtual items whose consumption information are unable to be tracked. The determination of average player 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 regular basis. Future paying player usage patterns and behaviors may differ from the historical usage pattern and therefore the estimated average player period of paying players may change in the future. The Group will continue to monitor the estimated average player period of paying players, which may differ from the historical period, and any change in the estimate may result in the revenue being recognized on a different basis to that in prior periods. Any adjustments arising from changes in the average player period of paying players as a result of new information will be accounted for as a change in an accounting estimate.

4. OPERATING SEGMENT INFORMATION

The Group is principally engaged in mobile game development and operation and digital media content distribution in Mainland China. Information reported to the Group's chief operating decision maker, for the purpose of resource allocation and performance assessment, focuses on the operating results of the Group as a whole as the Group's resources are integrated and no discrete operating segment financial information is available. Accordingly, no operating segment information is presented.

Geographical information***(a) Revenue from external customers***

All significant external customers of the Group are located in the Mainland China. Accordingly, no geographical information of revenue from external customers is presented.

(b) Non-current assets

All significant non-current assets of the Group are located in the Mainland China. Accordingly, no geographical information of non-current assets is presented.

Information about major customers

No revenues from the Group's transactions with a single customer amounted to 10% or more of the Group's revenues for each of the Relevant Periods.

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	Year ended 31 December			Nine months ended 30 September	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
<u>Revenue from contracts with customers</u>					
Mobile games					
– Development and operation . . .	116,548	151,068	90,611	78,808	146,754
– Information services	–	–	918	–	2,088
Digital media content distribution . .	23,207	19,586	51,450	41,619	21,950
Total revenue from contracts with customers	139,755	170,654	142,979	120,427	170,792
<u>Timing of revenue recognition</u>					
Point in time (<i>note (a)</i>)	139,755	170,654	142,979	120,427	124,414
Over time (<i>note (b)</i>)	–	–	–	–	46,378
Total revenue from contracts with customers	139,755	170,654	142,979	120,427	170,792

Notes:

- (a) Including revenue from single player mobile games. Since they are downloaded and are fully functional once installed on each individual mobile device, the Group does not have the obligation for game operation and maintenance once the game is downloaded and neither has the access to the game data of each mobile device. Revenue is recognized upon the purchase of in-game items and premium features by players and all other criteria for revenue recognition are met.
- (b) Including revenue from multi-player games. Since the Group has an implied obligation to provide the service which enables the virtual items to be consumed. Revenue is recognized ratably over the estimated average playing period of paying players, starting from the time when virtual items are delivered to the player's accounts and all other revenues recognition criteria are met.

An analysis of other income and gains is as follows:**Other income**

Interest income	84	1,952	655	269	581
Consultancy services income	–	7,591	–	–	–
Government grants*	1,900	1,512	813	413	–
Game licensing income	1,926	944	–	–	–
Others	–	–	582	305	389
	3,910	11,999	2,050	987	970

Gains

Gains on disposal of subsidiaries (<i>note 27</i>)	–	–	–	–	497
Gain on bargain purchase	243	–	–	–	–
	4,153	11,999	2,050	987	1,467

* Various government grants have been received by certain subsidiaries as these subsidiaries were qualified as High and New Technology Enterprises in the PRC. There are no unfulfilled conditions or contingencies relating to these grants.

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	Notes	Year ended 31 December			Nine months ended 30 September	
		2016	2017	2018	2018	2019
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(unaudited)	
Cost of sales		74,656	93,898	80,660	69,404	108,004
Auditor's remuneration . . .		761	870	500	375	375
Depreciation	13	73	109	332	250	254
Minimum lease payments under operating leases . . .		939	966	1,065	795	847
Employee benefit expense (including directors' remuneration (note 7)):						
Wages, salaries, bonuses and allowances		7,980	10,539	9,399	6,341	5,725
Pension scheme contributions		1,197	1,051	783	1,186	578
		9,177	11,590	10,182	7,527	6,303
Impairment/(reversal of impairment) of trade receivables	15	3,807	2,090	(17,273)	(16,283)	990
Impairment of deposits# . . .	16	—	—	—	—	661
		<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Included in "Other expenses" in the combined statements of profit or loss

7. FINANCE COST

	Year ended 31 December			Nine months ended 30 September	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Interest on convertible bonds	—	—	569	327	772
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Mr. Lu Jian was appointed as a director on 5 February 2018 and re-designated as an executive director and the chief executive officer of the Company on 21 February 2020. Mr. Liang Jun Hua was appointed as a director on 5 February 2018 and re-designated as an executive director of the Company on 21 February 2020.

Ms. Su Shao Ping and Mr. Tsui Wing Tak were appointed as directors on 5 February 2018 and 19 February 2019, respectively and were re-designated as non-executive directors of the Company on 21 February 2020 and 21 February 2020, respectively.

Mr. Zhuang Wensheng, Mr. Zhao Junfeng and Ms. Song Yi were appointed as independent non-executive directors of the Company on 21 February 2020.

A director received remuneration from the subsidiaries now comprising the Group for his appointment as a director of these subsidiaries or his capacity as an employee of these subsidiaries. The remuneration of the director as recorded in the Historical Financial Information of the subsidiaries is set out below:

	Fees	Salaries and allowances	Pension scheme contributions	Total remuneration
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<u>Year ended 31 December 2016</u>				
Mr. Lu Jian	—	101	8	109
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
<u>Year ended 31 December 2017</u>				
Mr. Lu Jian	—	2	21	23
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
<u>Year ended 31 December 2018</u>				
Mr. Lu Jian	—	7	53	60
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
<u>Nine months ended 30 September 2018</u> <u>(unaudited)</u>				
Mr. Lu Jian	—	4	39	43
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
<u>Nine months ended 30 September 2019</u>				
Mr. Lu Jian	—	9	38	47
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

During the Relevant Periods, no remuneration was paid or payable by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office.

There were no other emoluments payable to the independent non-executive directors during the Relevant Periods.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the Relevant Periods.

9. FIVE HIGHEST PAID EMPLOYEES

Details of the remuneration for the Relevant Periods of the five highest paid employees who are neither a director nor chief executive of the Company are as follows:

	Year ended 31 December			Nine months ended 30 September	
	2016	2017	2018	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(unaudited)	
Salaries, bonuses and allowances . . .	1,620	1,880	1,261	868	774
Pension scheme contributions	41	116	229	183	138
	1,661	1,996	1,490	1,051	912

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			Nine months ended 30 September	
	2016	2017	2018	2018	2019
				(unaudited)	
Nil to HK\$1,000,000	5	5	5	5	5

10. INCOME TAX AND DEFERRED TAX

All subsidiaries of the Group established in the PRC are subject to PRC corporate income tax at a standard rate of 25% during the Relevant Periods, except for:

- (i) Certain subsidiaries of the Group, which qualified as High and New Technology Enterprises in Mainland China, were entitled to a lower PRC corporate income tax rate of 15%; and
- (ii) Certain subsidiaries of the Group applied the Small-Scaled Minimal Profit Enterprise Income Tax Preferential Policy announced by the PRC's State Administration of Taxation.

	Year ended 31 December			Nine months ended 30 September	
	2016	2017	2018	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current — Mainland China					
Charge for the year/period . . .	8,276	10,617	7,036	5,891	9,731
Deferred	—	—	—	—	1,194
Total tax charge for the year/period	8,276	10,617	7,036	5,891	10,925

A reconciliation of the tax expense applicable to profit before tax at the PRC statutory tax rate to the tax charge at the Group's effective tax rate is as follows:

	Year ended 31 December			Nine months ended 30 September	
	2016	2017	2018	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> (unaudited)	<i>RMB'000</i>
Profit before tax	48,855	61,255	58,703	51,327	41,853
Tax at the PRC statutory tax rate of 25%	12,214	15,314	14,676	12,832	10,463
Lower tax rates enacted by local authorities	(4,890)	(6,750)	(5,479)	(4,443)	(3,444)
Additional deduction for qualified research and development expenses	(420)	(598)	—	—	—
Income not subject to tax	—	—	(3,655)*	(3,507)*	—
Expenses not deductible for tax	642	2,407	1,306	824	2,111
Temporary differences not recognized	143	30	(111)	—	178
Tax losses utilized from prior periods	(3)	—	—	(72)	—
Tax losses not recognized	590	214	299	257	424
Effect of withholding tax at 10% on distributable profits of the Group's PRC subsidiaries	—	—	—	—	1,194
Tax charge at the Group's effective tax rate	8,276	10,617	7,036	5,891	10,925

* It represented reversal of impairment of trade receivables.

Deferred tax assets

The Group had tax losses arising in Mainland China of RMB2,901,000, RMB4,128,000, RMB5,843,000 and RMB4,545,000 as at 31 December 2016, 2017 and 2018 and 30 September 2019, respectively, that will expire in one to five years for offsetting against future taxable profits.

At the end of each of the Relevant Periods, deferred tax assets in respect of these tax losses and other deductible temporary differences not recognized were as follows:

	As at 31 December			As at 30 September
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Tax losses	708	922	1,221	1,035
Accruals	253	283	172	80
	961	1,205	1,393	1,115

Deferred tax assets have not been recognized in respect of the tax losses and deductible temporary differences as at 31 December 2016 and 2017 and 2018 and 30 September 2019 as the directors consider it is currently not probable that future taxable profits will be available against which the tax losses and deductible temporary differences can be utilized.

Deferred tax liabilities

The movements in deferred tax liabilities during the Relevant Periods are as follows:

	Withholding taxes
	<i>RMB'000</i>
At 1 January 2016, 31 December 2016, 1 January 2017, 31 December 2017, 1 January 2018, 31 December 2018 and 1 January 2019	—
Deferred tax charged to the combined statements of profit or loss during the period . . .	1,194
	<u>1,194</u>

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%. The Group is therefore liable for withholding taxes on dividends distributed by the subsidiaries established in Mainland China to foreign shareholders in respect of earnings generated from 1 January 2008.

At 31 December 2016, 2017 and 2018 and 30 September 2019, the directors of the Company estimated that part of the retained earnings of the PRC subsidiaries would be retained in Mainland China for use in future operations and investments. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future to their foreign shareholders. The aggregate amount of temporary differences associated with the investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognized was approximately RMB100,596,000 and RMB87,102,000, RMB81,635,000 and RMB84,763,000 at 31 December 2016, 2017 and 2018 and 30 September 2019, respectively.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

11. DIVIDENDS

No dividend has been paid or declared by the Company since its incorporation.

The dividends declared by a subsidiary of the Company to the then shareholders during the Relevant Periods are as follows:

	Year ended 31 December			Nine months ended 30 September	
	2016	2017	2018	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(unaudited)	
Family Doctor					
Dividend	—	65,100	46,500	46,500	—

12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

Earnings per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful due to the Reorganization and the basis of presentation of the results of the Group for the Relevant Periods as disclosed in note 2.1 to the Historical Financial Information.

13. PROPERTY, PLANT AND EQUIPMENT

	Furniture, fixtures and office equipment	Motor vehicle	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
31 December 2016			
At 1 January 2016:			
Cost	257	—	257
Accumulated depreciation	(73)	—	(73)
Net carrying amount	184	—	184
At 1 January 2016, net of accumulated depreciation	184	—	184
Additions	194	—	194
Depreciation provided during the year	(73)	—	(73)
At 31 December 2016, net of accumulated depreciation	305	—	305
At 31 December 2016:			
Cost	451	—	451
Accumulated depreciation	(146)	—	(146)
Net carrying amount	305	—	305
31 December 2017			
At 31 December 2016 and at 1 January 2017:			
Cost	451	—	451
Accumulated depreciation	(146)	—	(146)
Net carrying amount	305	—	305
At 1 January 2017, net of accumulated depreciation	305	—	305
Additions	813	—	813
Disposal of subsidiaries (note 27)	(2)	—	(2)
Depreciation provided during the year	(109)	—	(109)
At 31 December 2017, net of accumulated depreciation	1,007	—	1,007
At 31 December 2017:			
Cost	1,261	—	1,261
Accumulated depreciation	(254)	—	(254)
Net carrying amount	1,007	—	1,007

	Furniture, fixtures and office equipment	Motor vehicle	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
31 December 2018			
At 31 December 2017 and at 1 January 2018:			
Cost	1,261	—	1,261
Accumulated depreciation	(254)	—	(254)
Net carrying amount	1,007	—	1,007
At 1 January 2018, net of accumulated depreciation	1,007	—	1,007
Additions	9	—	9
Depreciation provided during the year	(332)	—	(332)
At 31 December 2018, net of accumulated depreciation	684	—	684
At 31 December 2018:			
Cost	1,270	—	1,270
Accumulated depreciation	(586)	—	(586)
Net carrying amount	684	—	684
30 September 2019			
At 31 December 2018 and at 1 January 2019:			
Cost	1,270	—	1,270
Accumulated depreciation	(586)	—	(586)
Net carrying amount	684	—	684
At 1 January 2019, net of accumulated depreciation	684	—	684
Additions	100	121	221
Disposal of subsidiaries (<i>note 27</i>)	(32)	—	(32)
Depreciation provided during the period	(239)	(15)	(254)
At 30 September 2019, net of accumulated depreciation	513	106	619
At 30 September 2019:			
Cost	1,247	121	1,368
Accumulated depreciation	(734)	(15)	(749)
Net carrying amount	513	106	619

14. INVESTMENT IN A SUBSIDIARY**Company**

	31 December 2018	30 September 2019
	<i>RMB'000</i>	<i>RMB'000</i>
Unlisted investment, at cost	—*	—*

* Amounts less than RMB1,000

Particulars of the subsidiary are disclosed in note 1 to the Historical Financial Information.

The balances with subsidiaries are non-trade related, unsecured, interest-free and repayable on demand.

15. TRADE RECEIVABLES

	As at 31 December			As at 30 September
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	143,274	81,791	44,866	100,738
Impairment	(17,551)	(19,641)	(3,700)	(4,458)
	<u>125,723</u>	<u>62,150</u>	<u>41,166</u>	<u>96,280</u>

The Group's trading terms with its debtors are on credit. The credit periods range from 30 to 90 days, during the Relevant Periods. The Group seeks to maintain strict control over its outstanding receivables to minimize credit risk. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. 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 invoice date and net of provisions, is as follows:

	As at 31 December			As at 30 September
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 30 days	5,885	15,475	6,477	13,499
31 to 60 days	7,196	22,280	7,699	15,718
61 to 90 days	12,997	6,800	7,335	15,438
91 to 180 days	37,930	5,973	9,825	41,065
181 to 365 days	61,626	1,851	9,538	8,591
Over 365 days	89	9,771	292	1,969
	<u>125,723</u>	<u>62,150</u>	<u>41,166</u>	<u>96,280</u>

The movements in the loss allowance of trade receivables are as follows:

	As at 31 December			As at 30 September
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At beginning of year/period	13,744	17,551	19,641	3,700
Effect of adoption of HKFRS 9	—	—	1,332	—
At beginning of year/period (as restated)	13,744	17,551	20,973	3,700
Impairment/(reversal of impairment) (note 6)	3,807	2,090	(17,273)	990
Disposal of subsidiaries	—	—	—	(232)
At end of year/period	<u>17,551</u>	<u>19,641</u>	<u>3,700</u>	<u>4,458</u>

Impairment under HKFRS 9 for the year ended 31 December 2018 and nine months ended 30 September 2019

An impairment analysis is performed at 31 December 2018 and 30 September 2019 using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various debtor segments with similar loss patterns by debtor type. The calculation reflects the probability-weighted outcome and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 31 December 2018

	Expected credit loss rate	Gross carrying amount	Expected credit losses
		<i>RMB'000</i>	<i>RMB'000</i>
Credit-impaired receivables	100%	2,368	(2,368)
Other trade receivables aged:			
Current and less than 12 months past due	2%-4%	42,317	(1,320)
Over 12 months past due	3%-8%	181	(12)
		<u>44,866</u>	<u>(3,700)</u>

As at 30 September 2019

	Expected credit loss rate	Gross carrying amount	Expected credit losses
		<i>RMB'000</i>	<i>RMB'000</i>
Credit-impaired receivables	100%	2,136	(2,136)
Other trade receivables aged:			
Current and less than 12 months past due	1%-7%	98,209	(2,292)
Over 12 months past due	4%-9%	393	(30)
		<u>100,738</u>	<u>(4,458)</u>

Impairment under HKAS 39 for the years ended 31 December 2016 and 2017

At 31 December 2016 and 2017, the above provision for impairment of trade receivables, which was measured based on incurred credit losses under HKAS 39, was a provision for individually impaired trade receivables of RMB17,551,000 and RMB19,641,000 with carrying amounts before provision of RMB17,551,000 and RMB19,641,000, respectively.

The aging analysis of the trade receivables that are not individually nor collectively considered to be impaired is as follows:

	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Neither past due nor impaired	13,135	37,813
1 to 30 days past due	12,522	6,824
31 to 90 days past due	24,693	5,484
Over 90 days past due	75,373	12,029
	<u>125,723</u>	<u>62,150</u>

Trade receivables that were neither past due nor impaired relate to a number of diversified debtors for whom there was no recent history of default.

Trade receivables that were past due but not impaired relate to a number of independent debtors that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment under HKAS 39 is necessary in respect of these balances as there has not been a significant change in their credit quality and the balances are still considered fully recoverable.

16. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 31 December			As at 30 September
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Prepayments	129	2,928	5,822	24,157
Deposits and other receivables	2,841	960	12,087	31,345
	<u>2,970</u>	<u>3,888</u>	<u>17,909</u>	<u>55,502</u>

None of the above assets is past due. The financial assets included in the above balances relate to deposits and receivables for which there was no recent history of default.

The movements in the loss allowance for impairment of deposits and other receivables are as follows:

	As at 31 December			As at 30 September
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At beginning of year/period	–	–	–	–
Impairment (<i>note 6</i>)	–	–	–	661
At end of year/period	<u>–</u>	<u>–</u>	<u>–</u>	<u>661</u>

Impairment under HKFRS 9 for the year ended 31 December 2018 and nine months ended 30 September 2019

Expected credit losses on financial assets included in prepayments, deposits and other receivables are estimated by applying a loss rate approach with reference to historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. The loss rates applied for as at 31 December 2018 and 30 September 2019 are Nil and 2%, respectively.

17. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 December			As at 30 September
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Wealth management products	34,600	—	—	—

Wealth management products at 31 December 2016 were mainly investments in financial instruments issued by banks which had no guaranteed returns. The initial terms ranging from no fixed terms to 45 days, and the ranges of return rates of these products as at 31 December 2016 were 2.00% to 4.10%. The fair values of financial assets at fair value through profit or loss have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities.

18. CASH AND CASH EQUIVALENTS

	Group				Company	
	As at 31 December			As at 30 September	As at 31 December	As at 30 September
	2016	2017	2018	2019	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cash and bank balances	14,645	105,707	89,270	27,610	16,719	1,389

The Group's and Company's cash and cash equivalents are denominated in the following currencies:

	Group				Company	
	As at 31 December			As at 30 September	As at 31 December	As at 30 September
	2016	2017	2018	2019	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
RMB	14,645	105,707	72,507	26,177	—	—
HK\$	—	—	16,763	1,433	16,719	1,389
	14,645	105,707	89,270	27,610	16,719	1,389

The RMB is not freely convertible into other currencies, however, under Mainland China's 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. The bank balances are deposited with creditworthy banks with no recent history of default.

19. 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 September
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 month	3,519	8,256	2,773	6,955
1 to 2 months	3,545	11,681	3,332	8,378
2 to 3 months	6,207	9,874	1,916	3,797
Over 3 months	41,264	5,858	7,973	4,883
	<u>54,535</u>	<u>35,669</u>	<u>15,994</u>	<u>24,013</u>

The trade payables are non-interest-bearing and are normally settled on terms ranging from 30 to 90 days.

20. CONTRACT LIABILITIES

The Group has recognized the following revenue-related contract liabilities, which represented the unsatisfied performance obligation as at 31 December 2016, 2017 and 2018 and 30 September 2019 and will be expected to be recognized within one year:

	As at 31 December			As at 30 September
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Multi-player mobile game revenue	<u>—</u>	<u>—</u>	<u>—</u>	<u>2,968</u>

Deferred multi-player mobile game revenue primarily consists of the unamortized revenue from sales of the in-game items and premium features for multi-player mobile games, where there is still an implied obligation to be provided by the Group.

Movements in contract liabilities during each of the Relevant Periods are as follows:

	As at 31 December			As at 30 September
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At beginning of year/period	—	—	—	—
Additions	—	—	—	49,346
Revenue recognized during the year/period	—	—	—	(46,378)
At end of year/period	<u>—</u>	<u>—</u>	<u>—</u>	<u>2,968</u>

21. OTHER PAYABLES AND ACCRUALS

	As at 31 December			As at 30 September
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Other payables	2,862	11,183	14,777	11,546
Other tax payables	6,458	1,738	536	3,124
Accruals	3,497	5,260	3,000	1,099
Dividend payable	–	46,500	26,500	9,500
	<u>12,817</u>	<u>64,681</u>	<u>44,813</u>	<u>25,269</u>

Other payables are unsecured and non-interest-bearing and have an average term of 30 days.

22. CONVERTIBLE BONDS

On 29 May 2018, the Company issued HK\$ denominated zero coupon convertible bonds with an aggregate principal amount of HK\$19,000,000 (equivalent to RMB15,505,000) (the “Convertible Bonds”). The Convertible Bonds will be matured on 31 December 2019 (the “Maturity Date”), such Maturity Date may be extended at the election of the bondholders to a date agreed upon by the Company and the bondholders. The Convertible Bonds are convertible at the option of the bondholders into 6,990 ordinary shares of the Company, which represents 4.9% of the Company's entire issued share capital immediately after the completion of the capitalization issue and global offering of the proposed listing of shares of the Company on the Stock Exchange (the “Listing”), at any time prior to the Maturity Date. The Convertible Bonds are redeemable at the option of the bondholders at the principal amount if (i) the Listing is rejected based on a written notice by the Securities and Futures Commission or the Stock Exchange; (ii) the Company confirms by a written notice that it has aborted the Listing; or (iii) the Company fails to achieve a Listing by 30 November 2019.

The fair value of the liability component was estimated at the issuance date using an equivalent market interest rate for a similar term of borrowing for the Group.

	As at 31 December			As at 30 September
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Nominal value of convertible bonds issued during the year/period	–	–	15,505	–
Equity component	–	–	(1,128)	–
Direct transaction costs attributable to the liability component	–	–	(403)	–
Liability component at the issuance date or beginning of year/period	–	–	13,974	15,757
Interest expense	–	–	569	772
Exchange realignment	–	–	1,214	529
Liability component at end of year/period	<u>–</u>	<u>–</u>	<u>15,757</u>	<u>17,058</u>

23. BALANCES WITH SHAREHOLDERS

The balances with shareholders are non-trade related, unsecured, interest-free and repayable on demand.

In the opinion of the directors, the balances with shareholders will be settled prior to the listing.

24. ISSUED CAPITAL

On 5 February 2018, the Company was incorporated as an exempted company with limited liability incorporated in the Cayman Islands with authorized share capital of HK\$390,000 divided into 39,000,000 ordinary shares of HK\$0.01 each. Upon incorporation, 100,000 ordinary shares was issued at par for cash.

25. RESERVES**(a) Group**

The amounts of the Group's reserves and the movements therein for each of the Relevant Periods are presented in the combined statements of changes in equity on page I-8 of this report.

(i) Other reserve

The other reserve represents the nominal value of the paid-up capital of Family Doctor prior to the Reorganization set out in note 2.1 to the Historical Financial Information.

(ii) Statutory reserve funds

Pursuant to the relevant laws and regulations in Mainland China, a portion of the profits of the Company's subsidiaries in Mainland China has been transferred to the statutory reserve funds which are restricted to use.

(iii) 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.

(b) Company

A summary of the Company's reserves is as follows:

	Equity component of convertible bonds	Exchange fluctuation reserve	Accumulated losses	Total
	RMB'000	RMB'000	RMB'000	RMB'000
	(note 22)			
At 5 February 2018 (date of incorporation)	—	—	—	—
Issue of convertible bonds	1,128	—	—	1,128
Loss for the period	—	—	(569)	(569)
At 31 December 2018 and at 1 January 2019	1,128	—*	(569)*	559
Loss for the period	—	—	(780)	(780)
Exchange differences on translation of foreign operations	—	33	—	33
At 30 September 2019	1,128	33*	(1,349)*	(188)

* These reserve accounts comprise the debit reserves of RMB569,000 and RMB1,316,000 in the statements of financial position as at 31 December 2018 and 30 September 2019, respectively.

26. BUSINESS COMBINATION

On 8 January 2016, the Group acquired a 100% equity interest in Shanxi Yiliheng from an independent third party at nil consideration. Shanxi Yiliheng is principally engaged in the development and operation of mobile games.

The fair values of the identifiable assets and liabilities of Shanxi Yiliheng as at the date of acquisition were as follows:

	Fair value recognized on acquisition
	<i>RMB'000</i>
Trade receivables	1,145
Cash and cash equivalents	47
Trade payables	(886)
Tax payable	(63)
Total identifiable net assets at fair value	243
Gain on bargain purchase recognized in other income and gains in the combined statement of profit or loss	(243)
	—

The fair value and gross contractual amount of the trade receivables as at the date of acquisition amounted to RMB1,145,000.

An analysis of the cash flows in respect of the acquisition of the subsidiary is as follows:

	<i>RMB'000</i>
Cash and cash equivalents acquired and net inflow of cash and cash equivalents included in cash flows from investing activities	47

Since the acquisitions, Shanxi Yiliheng contributed RMB219,000 to the Group's revenue and RMB9,000 to the combined profit for the year ended 31 December 2016.

Had the combination of Shanxi Yiliheng taken place at the beginning of the year ended 31 December 2016, the revenue of the Group and the profit of the Group for the year ended 31 December 2016 would have been RMB139,974,000 and RMB40,588,000, respectively.

27. DISPOSAL OF SUBSIDIARIES**For the year ended 31 December 2017**

On 30 September 2017, the Group disposed of its entire equity interest in a subsidiary, Guangzhou Medical e-Commerce Company Limited, to an independent third party for a consideration of RMB58,000.

On 10 October 2017, the Group disposed of its entire equity interest in a subsidiary, Guangzhou Medical Network Technology Company Limited, to an independent third party for a consideration of RMB494,000.

	Note	Year ended 31 December 2017 <i>RMB'000</i>
Net assets disposed of:		
Property, plant and equipment	13	2
Other receivables		531
Cash and cash equivalents		20
Other payables and accruals		(1)
Satisfied by:		
Cash		552

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	<i>RMB'000</i>
Cash consideration	552
Cash and bank balances disposed of	(20)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	532

For the nine months ended 30 September 2019

During the period, the Group disposed of its entire equity interests in 28 subsidiaries to Mr. Lu Jian, Mr. Liang Jun Hua and Ms. Su Shao Ping, the shareholders of the Group, for considerations of RMB53,824,000.

	Notes	Nine months ended 30 September <i>RMB'000</i>
Net assets disposed of:		
Property, plant and equipment	13	32
Trade receivables		2,211
Prepayments and other receivables		54,423
Cash and cash equivalents		1,989
Trade payables		(2,430)
Other payables and accruals		(2,898)
		53,327
Gains on disposal of subsidiaries	5	497
Satisfied by cash		53,824

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	<i>RMB'000</i>
Cash consideration	53,824
Cash and bank balances disposed of	(1,989)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	<u>51,835</u>

28. ACQUISITION OF NON-CONTROLLING INTERESTS

During the year ended 31 December 2016, the Group acquired the remaining 20% equity interest in Family Communications for a cash consideration of RMB2,046,000. Family Communications was previously a 80%-owned subsidiary of the Group and upon completion of the transaction, it became a wholly-owned subsidiary of the Group. Family Communications is principally engaged in the development and operation of mobile games and distribution of digital media content.

29. NOTE TO THE COMBINED STATEMENT OF CASH FLOWS

Changes in financial liabilities arising from financing activities

	Convertible bonds
	<i>RMB'000</i>
At 1 January 2017, 31 December 2017 and at 1 January 2018	-
Changes from financing cash flows	15,505
Direct transaction costs attributable to the liability component	(403)
Equity component of convertible bonds	(1,128)
Interest expense	569
Exchange realignment	1,214
At 31 December 2018 and at 1 January 2019	15,757
Interest expense	772
Exchange realignment	529
At 30 September 2019	<u>17,058</u>

30. RELATED PARTY TRANSACTIONS

- (a) In addition to the transactions detailed elsewhere in the Historical Financial Information, the Group had the following transactions with related parties during the Relevant Periods:

	Year ended 31 December			Nine months ended 30 September	
	2016	2017	2018	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<i>A related company:</i>					
Financial advisory service fee					
(note)	-	-	-	-	42

Note: The service fee was charged by a related company based on terms agreed between the relevant parties. Mr. Tsui Wing Tak is a director and/or beneficial shareholder of the related company.

(b) During the nine months ended 30 September 2019, the Group disposed of 28 subsidiaries to three shareholders at a consideration of RMB53,824,000. Further details of the transaction are included in note 27 to the Historical Financial Information.

(c) **Compensation of key management personnel of the Group**

Remuneration for key management personnel of the Group, including directors' and chief executives' remuneration as disclosed in note 8 to the Historical Financial Information, is as follows:

	Year ended 31 December			Nine months ended 30 September	
	2016	2017	2018	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Short-term employee benefits ···	842	1,200	781	377	386
Post-employment benefits ···	35	78	161	120	113
Total compensation paid to key management personnel ···	877	1,278	942	497	499

31. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of each of the Relevant Periods are as follows:

Financial assets

31 December 2016

	Financial assets designated upon initial recognition at fair value through profit or loss	Loans and receivables	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables ·····	–	125,723	125,723
Financial assets at fair value through profit or loss ·····	34,600	–	34,600
Financial assets included in prepayments, deposits and other receivables ·····	–	2,841	2,841
Cash and cash equivalents ·····	–	14,645	14,645
	34,600	143,209	177,809

31 December 2017

	Loans and receivables
	<i>RMB'000</i>
Trade receivables	62,150
Financial assets included in prepayments, deposits and other receivables	960
Due from shareholders	12,934
Cash and cash equivalents	105,707
	<u>181,751</u>

31 December 2018

	Financial assets at amortized cost
	<i>RMB'000</i>
Trade receivables	41,166
Financial assets included in prepayments, deposits and other receivables	12,087
Due from shareholders	13,637
Cash and cash equivalents	89,270
	<u>156,160</u>

30 September 2019

	Financial assets at amortized cost
	<i>RMB'000</i>
Trade receivables	96,280
Financial assets included in prepayments, deposits and other receivables	31,345
Due from shareholders	13,589
Cash and cash equivalents	27,610
	<u>168,824</u>

Financial liabilities*31 December 2016*

	Financial liabilities at amortized cost
	<i>RMB'000</i>
Trade payables	54,535
Financial liabilities included in other payables and accruals	2,862
Due to shareholders	1,748
	<u>59,145</u>

31 December 2017

	Financial liabilities at amortized cost
	<i>RMB'000</i>
Trade payables	35,669
Financial liabilities included in other payables and accruals	7,684
	<u>43,353</u>

31 December 2018

	Financial liabilities at amortized cost
	<i>RMB'000</i>
Trade payables	15,994
Financial liabilities included in other payables and accruals	7,777
Convertible bonds	15,757
	<u>39,528</u>

30 September 2019

	Financial liabilities at amortized cost
	<i>RMB'000</i>
Trade payables	24,013
Financial liabilities included in other payables and accruals	4,547
Convertible bonds	17,058
	<u>45,618</u>

32. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, trade receivables, financial assets included in prepayments, deposits and other receivables, trade payables, financial liabilities included in other payables and accruals, and amounts due from/to shareholders approximate to their carrying amounts largely due to the short term maturities of these instruments or the effect of discounting is not material.

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 following methods and assumptions were used to estimate the fair values:

The fair values of financial assets at fair value through profit or loss are based on quoted values provided by financial institutions. The fair value of the convertible bonds has been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. In the opinion of the directors, the carrying amounts approximate to their fair values.

Fair value hierarchy

The following table illustrates 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
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets at fair value through profit or loss	–	34,600	–	34,600

The Group did not have any financial assets measured at fair value as at 31 December 2017 and 2018 and 30 September 2019 or any financial liabilities measured at fair value as at 31 December 2016, 2017 and 2018 and 30 September 2019.

During the Relevant Periods, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities.

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and cash equivalents and amounts due from/to shareholders. The main purpose of these financial instruments is to finance the Group's operations. The Group has various other financial assets and liabilities such as trade receivables, financial assets included in prepayments, deposits and other receivables, financial assets at fair value through profit or loss, trade payables, and financial liabilities included in other payables and accruals, which mainly arise directly from its operations.

The main risks arising from the Group's financial instruments are credit risk and liquidity risk. The board of directors reviews and agrees the policies for managing each of these risks and they are summarized below.

Credit risk

The Group mainly transacts with creditworthy third parties. Receivable balances are monitored on an ongoing basis.

Maximum exposure and year-end staging as at 31 December 2018 and 30 September 2019

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end/period-end staging classification as at 31 December 2018 and 30 September 2019. The amounts presented are gross carrying amounts for financial assets.

	12-month ECLs	Lifetime ECLs	
	Stage 1	Simplified approach	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
As at 31 December 2018			
Trade receivables*	–	44,866	44,866
Financial assets included in prepayments, deposits and other receivables			
- Normal **	12,087	–	12,087
Due from shareholders			
- Not yet past due	13,637	–	13,637
Cash and cash equivalents			
- Not yet past due	89,270	–	89,270
	<u>114,994</u>	<u>44,866</u>	<u>159,860</u>
As at 30 September 2019			
Trade receivables*	–	100,738	100,738
Financial assets included in prepayments, deposits and other receivables			
- Normal **	32,006	–	32,006
Due from shareholders			
- Not yet past due	13,589	–	13,589
Cash and cash equivalents			
- Not yet past due	27,610	–	27,610
	<u>73,205</u>	<u>100,738</u>	<u>173,943</u>

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 15 to the Historical Financial Information.

** The credit quality of the financial assets included in prepayments, deposits and other receivables is considered to be “normal” when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition.

Maximum exposure as at 31 December 2016 and 2017

The credit risk of the Group's financial assets, which comprise trade receivables, deposits and other receivables, amounts due from shareholders, financial assets at fair value through profit or loss and cash and cash equivalents, arises from default of the counterparties, with a maximum exposure equal to the carrying amounts of these instruments.

At the end of each of the Relevant Periods, the Group had certain concentrations of credit risk as 79%, 55%, 44%, and 34%, and 88%, 80%, 71% and 73% of the Group's trade receivables as at 31 December 2016, 2017 and 2018 and 30 September 2019, were due from the Group's largest debtor and the three largest debtors, respectively.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 15 to the Historical Financial Information.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting financial obligations due to shortage of funds. The Group's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The Group monitors its risk to a shortage of funds by considering the maturities of both its financial liabilities and financial assets.

The Group's objective is to maintain a balance between continuity of funding and flexibility. The Group aims to maintain sufficient cash and cash equivalents to meet its liquidity requirements.

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, is as follows:

31 December 2016

	On demand/ less than 1 year
	<i>RMB'000</i>
Trade payables	54,535
Financial liabilities included in other payables and accruals	2,862
Due to shareholders	1,748
	<u>59,145</u>

31 December 2017

	On demand/ less than 1 year
	<i>RMB'000</i>
Trade payables	35,669
Financial liabilities included in other payables and accruals	7,684
	<u>43,353</u>

31 December 2018

	On demand/less than 1 year
	<i>RMB'000</i>
Trade payables	15,994
Financial liabilities included in other payables and accruals	7,777
Convertible bonds	16,719
	<u>40,490</u>

30 September 2019

	On demand/less than 1 year
	<i>RMB'000</i>
Trade payables	24,013
Financial liabilities included in other payables and accruals	4,547
Convertible bonds	17,329
	<u>45,889</u>

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to continue to provide returns for shareholders and benefits for other stakeholders.

The Group actively and regularly reviews and manages its capital structure and strives to maintain a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the Relevant Periods.

Capital of the Group comprises all components of shareholders' equity.

34. EVENT AFTER THE RELEVANT PERIODS

Subsequent to the end of the relevant periods, the bondholders of the Convertible Bonds extended the maturity date of the Convertible Bonds from 31 December 2019 to 30 June 2020. All the other terms and conditions of the Convertible Bonds remain unchanged. As the discounted present value of the cash flows under the new terms, including any fees paid and discounted using the original effective interest rate, was less than 10% different from the discounted present value of the remaining cash flows of the financial liability, the Directors consider the extension of the maturity date is non-substantial modifications that do not result in derecognition.

35. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company, the Group or any of its subsidiaries in respect of any period subsequent to 30 September 2019.

APPENDIX IIA UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following information sets out in this appendix does not form part of the Accountants' Report from Ernst & Young, Certified Public Accountants, Hong Kong, our Company's reporting accountants, as set out in Appendix I to this document, and is included herein for illustrative purpose only.

The unaudited pro forma financial information should be read in conjunction with "Financial Information" and the Accountants' Report set out in Appendix I to this document.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED COMBINED NET TANGIBLE ASSETS

The following is an illustrative statement of unaudited pro forma adjusted combined net tangible assets of the Group prepared in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering on the combined net tangible assets of the Group attributable to owners of the parent as if the Global Offering had taken place on 30 September 2019.

This unaudited pro forma statement of adjusted combined net tangible assets of the Group has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the combined net tangible assets of the Group had the Global Offering and placing been completed as at 30 September 2019 or any future dates:

	Combined net tangible assets of the Group attributable to owners of the parent as at 30 September 2019	Estimated net proceed from the Global Offering	Unaudited pro forma adjusted combined net tangible assets attributable to owners of the parent as at 30 September 2019	Unaudited pro forma adjusted combined net tangible assets per Share	
	RMB'000 (Note 1)	RMB'000 (Note 2)	RMB'000 (Note 3)	RMB (Note 4)	HK\$ (Note 5)
Based on an Offer Price of HK\$1.35 per Share, after Downward Offer Price Adjustment of 10%	105,638	105,366	211,004	0.39	0.45
Based on an Offer Price of HK\$1.50 per Share	105,638	119,216	224,854	0.41	0.48
Based on an Offer Price of HK\$1.80 per Share	105,638	146,914	252,552	0.46	0.53

Notes:

- (1) The combined net tangible assets attributable to owners of the parent as at 30 September 2019 is extracted from the Accountants' Report set out in Appendix I to this document, which is based on the combined equity attributable to owners of the parent as at 30 September 2019 of RMB105,638,000.

APPENDIX IIA UNAUDITED PRO FORMA FINANCIAL INFORMATION

- (2) The estimated net proceeds from the Global Offering are based on the Offer Price of HK\$1.50 per Share or HK\$1.80 per Share, and also based on an Offer Price of HK\$1.35 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 (excluding approximately RMB19.0 million which have been paid or become payable up to 30 September 2019) and does not take into account of any Shares which may be issued upon the exercise of the Over-allotment Options. 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 RMB0.8621.
- (3) The unaudited pro forma adjusted combined net tangible assets does not take into account for the effects arising from the conversion of the Pre-IPO Convertible Bonds.
- (4) The unaudited pro forma adjusted combined net tangible assets per Share is calculated based on 546,000,000 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 and the effects arising from the conversion of the Pre-IPO Convertible Bonds.
- (5) The unaudited pro forma adjusted combined net tangible assets per Share is converted into Hong Kong dollars at an exchange rate of HK\$1.0 to RMB0.8621.

B. INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report, prepared for the purpose of incorporation in this document, received from the Company's reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong.



22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

To the Directors of Jiu Zun Digital Interactive Entertainment Group Holdings Limited

We have completed our assurance engagement to report on the compilation of pro forma financial information of Jiu Zun Digital Interactive Entertainment Group Holdings 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 combined net tangible assets as at 30 September 2019 and related notes as set out on pages IIA-1 to IIA-2 of the document dated 27 February 2020 (the “**Document**”) 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 notes as set out on pages IIA-1 to IIA-2 of the prospectus.

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 September 2019 as if the transaction had taken place at 30 September 2019. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's financial statements for the nine months period 30 September 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.

APPENDIX IIA UNAUDITED PRO FORMA FINANCIAL INFORMATION

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 Document 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.

APPENDIX IIA UNAUDITED PRO FORMA 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,

Ernst & Young

Certified Public Accountants

Hong Kong

27 February 2020

The estimate of the combined profit attributable to owners of our Company for the year ended 31 December 2019 is set out in “Financial Information – Profit estimate for the year ended 31 December 2019” in this document.

A. PROFIT ESTIMATE FOR THE YEAR ENDED 31 DECEMBER 2019

Our Directors have prepared the profit estimate (the “**Profit Estimate**”) based on the audited combined results of our Group for the nine months ended 30 September 2019 and the unaudited combined results based on the management accounts of our Group for the three months ended 31 December 2019. The Profit Estimate has been prepared on the basis of the accounting policies consistent in all material respects with those currently adopted by our Group as summarised in the Accountants’ Report as set out in Appendix I to this document.

Profit Estimate for the year ended 31 December 2019

Estimated combined profit attributable to owners
of our Company. Not less than RMB37.2 million

B. LETTER FROM OUR REPORTING ACCOUNTANTS ON PROFIT ESTIMATE

The following is the text of a letter, prepared for inclusion in this document, received by our Directors and the Sole Sponsor from our Company's reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong, in connection with the estimate of the combined profit attributable to owners of our Company for the year ended 31 December 2019.



22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

The Board of Directors
Jiu Zun Digital Interactive Entertainment Group Holdings Limited
Lego Corporate Finance Limited

Dear Sirs,

Jiu Zun Digital Interactive Entertainment Group Holdings Limited (the “Company”)

Profit estimate for year ended 31 December 2019

We refer to the estimate of the combined profit attributable to owners of the Company for the year ended 31 December 2019 (the “Profit Estimate”) set forth in the section headed “Financial Information” in the document of the Company dated 27 February 2020 (the “Document”).

Directors’ responsibilities

The Profit Estimate has been prepared by the directors of the Company based on the audited combined results of the Company and its subsidiaries (collectively referred to as the “Group”) for the nine months ended 30 September 2019 and the unaudited combined results based on the management accounts of the Group for the three months ended 31 December 2019.

The Company’s directors are solely responsible for the Profit Estimate.

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 Hong Kong Institute of Certified Public Accountants (“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 on the accounting policies and calculations of the Profit Estimate based on our procedures.

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 500 *Reporting on Profit Forecasts, Statements of Sufficiency of Working Capital and Statements of Indebtedness* and with reference to Hong Kong Standard on Assurance Engagements 3000 (Revised) *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* issued by the HKICPA. Those standards require that we plan and perform our work to obtain reasonable assurance as to whether, so far as the accounting policies and calculations are concerned, the Company's directors have properly compiled the Profit Estimate in accordance with the bases adopted by the directors of the Company and as to whether the Profit Estimate is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

Opinion

In our opinion, so far as the accounting policies and calculations are concerned, the Profit Estimate has been properly compiled in accordance with the bases adopted by the directors of the Company as set out in Section A of Appendix IIB to the Document and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in our accountants' report dated 27 February 2020, the text of which is set out in Appendix I to the Document.

Yours faithfully,

Ernst & Young

Certified Public Accountants

Hong Kong

27 February 2020

C. LETTER FROM THE SOLE SPONSOR ON PROFIT ESTIMATE

The following is the text of a letter, prepared for inclusion in this prospectus, received by our Directors from the Sole Sponsor, in connection with the estimate of the consolidated profit attributable to owners of our Company for the year ended 31 December 2019.



Lego Corporate Finance Limited
Room 1601, 16/F
China Building
29 Queen's Road Central
Central
Hong Kong

27 February 2020

The Board of Directors
Jiu Zun Digital Interactive Entertainment Group Holdings Limited

Dear Sirs,

We refer to the estimate of the consolidated profit attributable to owners of Jiu Zun Digital Interactive Entertainment Group Holdings Limited (the “**Company**”) and its subsidiaries (hereinafter collectively referred to as the “**Group**”) for the year ended 31 December 2019 (the “**Profit Estimate**”), as set out in the section headed “Financial information” of the prospectus issued by the Company dated 27 February 2020.

The Profit Estimate, for which you, as the directors of the Company are solely responsible, has been prepared by you based on the audited consolidated results of the Group for the nine months ended 30 September 2019, and the unaudited consolidated results of the Group based on its management accounts for the remaining three months ended 31 December 2019.

We have discussed with you the bases and assumptions upon which the Profit Estimate has been made, we have also considered the letter dated 27 February 2020 addressed to you and us from Ernst & Young regarding the accounting policies and calculations upon which the Profit Estimate has been made.

On the basis of the information comprising the Profit Estimate and on the basis of the accounting policies and calculations adopted by you and reviewed by Ernst & Young, we are of the opinion that the Profit Estimate, for which you as directors of the Company are solely responsible, has been made after due and careful enquiry.

Yours faithfully,

Lego Corporate Finance Limited

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 5 February 2018 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the “**Companies Law**”). The Company’s constitutional documents consist of its Amended and Restated Memorandum of Association (the “**Memorandum**”) and its Amended and Restated Articles of Association (the “**Articles**”).

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were conditionally adopted on 21 February 2020 with effect from the Listing Date. The following is a summary of certain provisions of the Articles:

(a) Shares

(i) Classes of shares

The share capital of the Company consists of ordinary shares.

(ii) Variation of rights of existing shares or classes of shares

Subject to the Companies Law, if at any time the share capital of the Company is divided into different classes of shares, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified 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. To every such separate general meeting the provisions

of the Articles relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy (whatever the number of shares held by them) shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(iii) Alteration of capital

The Company may by ordinary resolution of its members:

- (i) increase its share capital by the creation of new shares;
- (ii) consolidate all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and attach to such shares any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;
- (iv) subdivide its shares or any of them into shares of smaller amount than is fixed by the Memorandum; or
- (v) cancel any shares which, at the date of passing of the resolution, have not been taken and diminish the amount of its capital by the amount of the shares so canceled.

The Company may reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(iv) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time.

Notwithstanding the foregoing, for so long as any shares are listed on the Stock Exchange, titles to such listed shares may be evidenced and transferred in accordance with the laws applicable to and the rules and regulations of the Stock Exchange that are or shall be applicable to such listed shares. The register of members in respect of its listed shares (whether the principal register or a branch register) may be kept by recording the particulars required by Section 40 of the Companies Law in a form otherwise than legible if such recording otherwise complies with the laws applicable to and the rules and regulations of the Stock Exchange that are or shall be applicable to such listed shares.

The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee. 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 in respect of that share.

The board may, in its absolute discretion, at any time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

The board may decline to recognize any instrument of transfer unless a fee (not exceeding the maximum sum as the Stock Exchange may determine to be payable) determined by the Directors is paid to the Company, the instrument of transfer is properly stamped (if applicable), it is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in any newspaper or by any other means in accordance with the requirements of the Stock Exchange, at such times and for such periods as the board may determine. The register of members must not be closed for periods exceeding in the whole thirty (30) days in any year.

Subject to the above, fully paid shares are free from any restriction on transfer and free of all liens in favor of the Company.

(v) Power of the Company to purchase its own shares

The Company is empowered by the Companies Law and the Articles to purchase its own shares subject to certain restrictions and the board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by the Stock Exchange.

Where the Company purchases for redemption a redeemable share, purchases not made through the market or by tender must be limited to a maximum price determined by the Company in general meeting. If purchases are by tender, tenders must be made available to all members alike.

The board may accept the surrender for no consideration of any fully paid share.

(vi) Power of any subsidiary of the Company to own shares in the Company

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

(vii) Calls on shares and forfeiture of shares

The board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or instalments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, 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 board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

(b) Directors

(i) Appointment, retirement and removal

At each annual general meeting, one third of the Directors for the time being (or if their number is not 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 shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire by rotation shall include any Director who wishes to retire and not offer himself for re-election. Any further Directors so to retire shall be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification. Further, there are no provisions in the Articles relating to retirement of Directors upon reaching any age limit.

The Directors have the power to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and members of the Company may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office of director shall be vacated if:

- (aa) he resigns by notice in writing delivered to the Company;
- (bb) he becomes of unsound mind or dies;
- (cc) without special leave, he is absent from meetings of the board for six (6) consecutive months, and the board resolves that his office is vacated;
- (dd) he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (ee) he is prohibited from being a director by law; or
- (ff) he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed must, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(ii) Power to allot and issue shares and warrants

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued (a) with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Directors may determine, or (b) on terms that, at the option of the Company or the holder thereof, it is liable to be redeemed.

The board may issue warrants or convertible securities or securities of similar nature conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of the Stock Exchange and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company are at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount to their nominal value.

Neither the Company nor the board is obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(iii) Power to dispose of the assets of the Company or any of its subsidiaries

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

(iv) Borrowing powers

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

(v) Remuneration

The ordinary remuneration of the Directors is to be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors are also entitled to be prepaid or repaid all traveling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration and such other benefits and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or past Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

The board may resolve to capitalize all or any part of any amount for the time being standing to the credit of any reserve or fund (including a share premium account and the profit and loss account) whether or not the same is available for distribution by applying such sum in paying up unissued shares to be allotted to (i) employees (including directors) of the Company and/or its affiliates (meaning any individual, corporation, partnership, association, joint-stock company, trust, unincorporated association or other entity (other than the Company) that directly, or indirectly through one or more intermediaries, controls, is controlled by or is under common control with, the Company) upon exercise or vesting of any options or awards granted under any share incentive scheme or employee benefit scheme or other arrangement which relates to such persons that has been adopted or approved by the members in general meeting, or (ii) any trustee of any trust to whom shares are to be allotted and issued by the Company in connection with the operation of any share incentive scheme or employee benefit scheme or other arrangement which relates to such persons that has been adopted or approved by the members in general meeting.

(vi) Compensation or payments for loss of office

Pursuant to the Articles, payments 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 be approved by the Company in general meeting.

(vii) Loans and provision of security for loans to Directors

The Company must not make any loan, directly or indirectly, to a Director or his close associate(s) if and to the extent it would be prohibited by the Companies Ordinance (Chapter 622 of the laws of Hong Kong) as if the Company were a company incorporated in Hong Kong.

(viii) Disclosure of interests in contracts with the Company or any of its subsidiaries

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and upon such terms as the board may determine, and may be paid such extra remuneration therefor in addition to any remuneration provided for by or pursuant to the Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director,

officer or member of, or from his interest in, such other company. The board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favor of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

No Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realized by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company must declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his close associates is materially interested, but this prohibition does not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his close associate(s) any security or indemnity in respect of money lent by him or any of his close associates or obligations incurred or undertaken by him or any of his close associates at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) any contract or arrangement for 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 his close associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of shares or 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 his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

(dd) any contract or arrangement in which the Director or his close associate(s) 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; or

(ee) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his close associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his close associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(c) Proceedings of the Board

The board may meet for the despatch of business, adjourn and otherwise regulate its meetings as it considers appropriate. 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 an additional or casting vote.

(d) Alterations to constitutional documents and the Company's name

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

(e) Meetings of members

(i) Special and ordinary resolutions

A special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles.

Under the Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles 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 authorized representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles.

(ii) Voting rights and right to demand a poll

Subject to any special rights or restrictions as to voting for the time being attached to any shares, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorized representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorized representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

If a recognized clearing house (or its nominee(s)) is a member of the Company it may authorize such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorized, the authorization shall specify the number and class of shares in respect of which each such person is so authorized. A person authorized pursuant to this provision shall be deemed to have been duly authorized without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognized clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)) including, where a show of hands is allowed, the right to vote individually on a show of hands.

Where the Company has any knowledge that any shareholder is, under the rules of the Stock Exchange, required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(iii) Annual general meetings and extraordinary general meetings

The Company must hold an annual general meeting of the Company every year within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of not more than eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of the Stock Exchange.

Extraordinary general meetings may be convened on the requisition of one or more shareholders holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the board or the secretary for the purpose of requiring an extraordinary general meeting to be called by the board for the transaction of any business specified in such requisition. Such meeting shall be held within 2 months after the deposit of such requisition. If within 21 days of such deposit, the board fails to proceed to convene such meeting, the requisitionist(s) himself/herself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the board shall be reimbursed to the requisitionist(s) by the Company.

(iv) Notices of meetings and business to be conducted

An annual general meeting must be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days. All other general meetings must be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice is exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time and place of the meeting and particulars of resolutions to be considered at the meeting and, in the case of special business, the general nature of that business.

In addition, notice of every general meeting must be given to all members of the Company other than to such members as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to, among others, the auditors for the time being of the Company.

Any notice to be given to or by any person pursuant to the Articles may be served on or delivered to any member of the Company personally, by post to such member's registered address or by advertisement in newspapers in accordance with the requirements of the Stock Exchange. Subject to compliance with Cayman Islands law and the rules of the Stock Exchange, notice may also be served or delivered by the Company to any member by electronic means.

All business that is transacted at an extraordinary general meeting and at an annual general meeting is deemed special, save that in the case of an annual general meeting, each of the following business is deemed an ordinary business:

- (aa) the declaration and sanctioning of dividends;
- (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
- (cc) the election of directors in place of those retiring;
- (dd) the appointment of auditors and other officers; and
- (ee) the fixing of the remuneration of the directors and of the auditors.

(v) 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 of a chairman.

The quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

(vi) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and is entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy is entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise as if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy.

(f) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records must be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorized by the board or the Company in general meeting. However, an exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles; however, subject to compliance with all applicable laws, including the rules of the Stock Exchange, the Company may send to such persons summarized financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarized financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

At the annual general meeting or at a subsequent extraordinary general meeting in each year, the members shall appoint an auditor to audit the accounts of the Company and such auditor shall hold office until the next annual general meeting. Moreover, the members may, at any general meeting, by special resolution remove the auditor at any time before the expiration of his terms of office and shall by ordinary resolution at that meeting appoint another auditor for the remainder of his term. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards which may be those of a country or jurisdiction other than the Cayman Islands. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor must be submitted to the members in general meeting.

(g) Dividends and other methods of distribution

The Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realized or unrealized, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorized for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders 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 board may think fit.

The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, 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 in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(h) Inspection of corporate records

Pursuant to the Articles, the register and branch register of members shall be open to inspection for at least two (2) hours during business hours by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the office where the branch register of members is kept, unless the register is closed in accordance with the Articles.

(i) Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman Islands law, as summarized in paragraph 3(f) of this Appendix.

(j) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

- (i) if the Company is wound up and 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 *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively; and
- (ii) if the Company is wound up and the assets available for distribution amongst the members 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 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 the Company is wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of 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. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(k) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman Islands law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Company operations

As an exempted company, the Company's 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 amount of its authorized share capital.

(b) Share capital

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 premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums 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 the company subject to the provisions, if any, of its memorandum and articles of association in (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) 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; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of 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 (the "**Court**"), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, by special resolution reduce its share capital in any way.

(c) Financial assistance to purchase shares of a company or its holding company

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person 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 acting 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.

(d) Purchase of shares and warrants by a company and its subsidiaries

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorized 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 and the Companies Law expressly provides that it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorized to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorize the manner and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorized by an ordinary resolution 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 issued shares of the company other than shares held as treasury 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.

Shares purchased by a company is to be treated as canceled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company is not be treated as a member for any purpose and must not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share must not be voted, directly or indirectly, at any meeting of the company and must not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company's articles of association or the Companies Law.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

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. With the exception of the foregoing, there are no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits.

No dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

(f) Protection of minorities and shareholders' suits

The Courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative 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 and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court 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 Court shall direct.

Any shareholder of a company may petition the Court 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 or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorizing civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must 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.

(g) Disposal of assets

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company must cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) 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.

An exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to the Tax Concessions Law of the Cayman Islands, the Company has obtained an undertaking:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 23 February 2018.

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 for 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 a party to a double tax treaty entered into with the United Kingdom in 2010 but otherwise is not party to any double tax treaties.

(k) 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.

(l) Loans to directors

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

The notice of registered office is a matter of public record. A list of the names of the current directors and alternate directors (if applicable) is made available by the Registrar of Companies for inspection by any person on payment of a fee. The register of mortgages is open to inspection by creditors and members.

Members of the Company 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.

(n) Register of members

An exempted company may maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. The register of members shall contain such particulars as required by Section 40 of the Companies Law. A branch register must be kept in the same manner in which a principal register is by the Companies Law required or permitted to be kept. The company shall cause to be kept at the place where the company's principal register is kept a duplicate of any branch register duly entered up from time to time.

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. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of members, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

(o) Register of Directors and Officers

The Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

(p) Beneficial Ownership Register

An exempted company is required to maintain a beneficial ownership register at its registered office that records details of the persons who ultimately own or control, directly or indirectly, more than 25% of the equity interests or voting rights of the company or have rights to appoint or remove a majority of the directors of the company. The beneficial ownership register is not a public document and is only accessible by a designated competent authority of the Cayman Islands. Such requirement does not, however, apply to an exempted company with its shares listed on an approved stock exchange, which includes the Stock Exchange. Accordingly, for so long as the shares of the Company are listed on the Stock Exchange, the Company is not required to maintain a beneficial ownership register.

(q) Winding up

A company may be wound up (a) compulsorily by order of the Court, (b) voluntarily, or (c) under the supervision of the Court.

The Court has authority to order winding up in a number of specified circumstances including where the members of the company have passed a special resolution requiring the company to be wound up by the Court, or where the company is unable to pay its debts, or where it is, in the opinion of the Court, just and equitable to do so. Where a petition is presented by members of the company as contributories on the ground that it is just and equitable that the company should be wound up, the Court has the jurisdiction to make certain other orders as an alternative to a winding-up order, such as making an order regulating the conduct of the company's affairs in the future, making an order authorizing civil proceedings to be brought in the name and on behalf of the company by the petitioner on such terms as the Court may direct, or making an order providing for the purchase of the shares of any of the members of the company by other members or by the company itself.

A company (save with respect to a limited duration company) may be wound up voluntarily when the company so resolves by special resolution or when the company in general meeting resolves by ordinary resolution that it be wound up voluntarily because it is unable to pay its debts as they fall due. In the case of a voluntary winding up, such company is obliged to cease to carry on its business (except so far as it may be beneficial for its winding up) from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court therein, there may be appointed an official liquidator or official liquidators; and the court may appoint to such office such person, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court must declare whether any act required or authorized to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court.

As soon as the affairs of the company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and how the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting must be called by at least 21 days' notice to each contributory in any manner authorized by the company's articles of association and published in the Gazette.

(r) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the 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.

(s) Take-overs

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the 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.

(t) 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 Court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

(u) Economic Substance Requirements

Pursuant to the International Tax Cooperation (Economic Substance) Law, 2018 of the Cayman Islands ("ES Law") that came into force on 1 January 2019, a "relevant entity" is required to satisfy the economic substance test set out in the ES Law. A "relevant entity" includes an exempted company incorporated in the Cayman Islands as is the Company; however, it does not include an entity that is tax resident outside the Cayman Islands. Accordingly, for so long as the Company is a tax resident outside the Cayman Islands, including in Hong Kong, it is not required to satisfy the economic substance test set out in the ES Law.

4. GENERAL

Conyers Dill & Pearman, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarizing certain 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 in Hong Kong 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 is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT OUR COMPANY**1. Incorporation of our Company**

Our Company was incorporated in the Cayman Islands under the Cayman Islands Companies Law as an exempted company with limited liability on 5 February 2018.

We were registered in Hong Kong under Part 16 of the Companies Ordinance as a non-Hong Kong company on 17 July 2019 and our principal place of business in Hong Kong is at 6/F, Tower 1, Admiralty Centre, 18 Harcourt Road, Admiralty, Hong Kong. In compliance with the requirements of the Companies Ordinance, Mr. Tsui Wing Tak has been appointed as our agent for the acceptance of service of process and any notice required to be served on our Company in Hong Kong.

Our Company was incorporated in the Cayman Islands and is subject to Cayman Islands law. Its constitution comprises a memorandum of association and articles of association. A summary of certain relevant parts of its constitution and certain relevant aspects of Cayman Islands company law is set out in Appendix III to this prospectus.

2. Changes in share capital of our Company***(a) Change in authorized share capital and issued share capital***

- (i) As at the date of incorporation of our Company on 5 February 2018, the authorized share capital of our Company was HK\$390,000 divided into 39,000,000 shares having a par value of HK\$0.01 each.
- (ii) On the date of incorporation,
 - (a) one Share was allotted and issued as fully paid to the initial subscriber of our Company, which was subsequently transferred to JL at the consideration of HK\$0.01 on the same date; and
 - (b) 99,999 Shares of HK\$0.01 each in our Company were allotted and issued as fully paid, among which 32,257 Shares were allotted and issued to JL, 26,882 Shares were allotted and issued to LJHJH, 7,527 Shares were allotted and issued to DW, 6,451 Shares were allotted and issued to LTZL, 26,882 Shares were allotted and issued to WS, respectively.
- (iii) On 24 May 2018, 32,258 Shares were transferred by JL to JLCY SAGA, 26,882 Shares were transferred by LJHJH to LJHJH SAGA, 7,527 Shares were transferred by DW to DW SAGA, 6,451 Shares were transferred by LTZL to LTZL SAGA, and 26,882 Shares were transferred by WS to WW SAGA, at the consideration of HK\$1.00, respectively.

- (iv) On 21 February 2020, the authorized share capital of our Company was increased by an additional HK\$19,610,000 by the creation of 1,961,000,000 Shares pursuant to the resolutions in writing of our Shareholders passed on 21 February 2020.
- (v) Immediately prior to the completion of the Capitalization Issue and the Global Offering, upon full conversion of the Pre-IPO Convertible Bonds, our Company allotted and issued 4,280 Shares and 2,710 Shares to AE Majoris Tech and AEM PIPO, respectively.

Immediately following completion of the Capitalization Issue and the Global Offering (taking no account of any Shares which may be allotted and issued pursuant to the exercise of the options which may be granted under the Share Option Scheme and upon the exercise of the Over-allotment Option), the authorized share capital of our Company will be HK\$20,000,000 divided into 2,000,000,000 Shares, of which 546,000,000 Shares will be issued, fully paid or credited as fully paid, and 1,454,000,000 Shares will remain unissued.

Other than pursuant to the exercise of the Over-allotment Option and any options to be granted under the Share Option Scheme, there is no present intention to issue any of the authorized but unissued share capital of our Company and, without the prior approval of the Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of our Company.

Save as disclosed herein and in the paragraphs headed “A. Further Information about our Company — 3. Resolutions in writing of our Shareholders passed on 21 February 2020” and “A. Further Information about our Company — 4. Group Reorganization” of this appendix, there has been no alteration in the share capital of our Company since its incorporation.

(b) Founder shares

Our Company has no founder shares, management shares or deferred shares.

3. Resolutions in writing of our Shareholders passed on 21 February 2020

Written resolutions were passed by the Shareholders on 21 February 2020 pursuant to which, among other matters:

- (a) our Company approved and adopted the Memorandum of Association conditional upon and with effect from the listing of the Shares on the Stock Exchange on the Listing Date;

- (b) our Company approved and adopted the Articles of Association conditional upon and with effect from the listing of the Shares on the Stock Exchange on the Listing Date;
- (c) the authorized share capital of our Company was increased from HK\$390,000 divided into 39,000,000 Shares to HK\$20,000,000 divided into 2,000,000,000 Shares by the creation of an additional 1,961,000,000 Shares;
- (d) conditional on (aa) the Listing Committee granting listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus; (bb) the Offer Price having been determined; (cc) the execution and delivery of the Underwriting Agreements on or before the date as mentioned in this prospectus; and (dd) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and not being terminated in accordance with the terms of the Underwriting Agreements or otherwise, in each case on or before the day falling 30 days after the date of this prospectus:
 - (i) subject to the receipt of the conversion notice from the holder(s) of the Pre-IPO Convertible Bonds, namely AE Majoris Tech and AEM PIPO, the conversion of Pre-IPO Convertible Bonds into and the issue of 4,280 Shares and 2,710 Shares to AE Majoris Tech and AEM PIPO, respectively (the “**Conversion**”) was approved and the register of members of the Company be updated accordingly;
 - (ii) the Global Offering and the Over-allotment Option were approved and our Directors were authorized to allot and issue the Offer Shares pursuant to the Global Offering and such number of Shares as may be required to be allotted and issued upon the exercise of the Over-allotment Option;
 - (iii) the rules of the Share Option Scheme, the principal terms of which are set out in “D. Other Information — 1. Share Option Scheme” in this appendix, were approved and adopted and our Directors were authorized to approve any amendments to the rules of the Share Option Scheme as may be acceptable or not objected to by the Stock Exchange, and at our Directors’ absolute discretion to grant options to subscribe for Shares thereunder and to allot, issue and deal with Shares pursuant to the exercise of options which may be granted under the Share Option Scheme and to take all such steps as may be necessary, desirable or expedient to implement the Share Option Scheme;

- (iv) conditional on the share premium account of our Company being credited as a result of the Global Offering, our Directors were authorized to capitalize HK\$4,198,930.1 standing to the credit of the share premium account of our Company by applying such sum in paying up in full at par 419,893,010 Shares for allotment and issue to holders of Shares whose names appear on the register of members of our Company immediately following the Conversion in proportion (as nearly as possible without involving fractions so that no fraction of a Share shall be allotted and issued) to their then existing holdings in our Company and so that the Shares to be allotted and issued pursuant to this resolution should rank pari passu in all respects with the then existing issued Shares and our Directors were authorized to give effect to the Capitalization Issue;
- (v) a general unconditional mandate was given to our Directors to exercise all powers of our Company to allot, issue and deal with, otherwise than by way of rights issue, scrip dividend schemes or similar arrangements providing for allotment of Shares in lieu of the whole or in part of any dividend in accordance with the Articles, or pursuant to the exercise of any options to be granted under the Share Option Scheme, or under the Capitalization Issue or the Global Offering or upon the exercise of the Over-allotment Option, with an aggregate number of Shares not exceeding 20% of the aggregate number of issued Shares immediately following completion of the Capitalization Issue and the Global Offering (but excluding any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or any options to be granted under the Share Option Scheme), until the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Memorandum and Articles of Association, the Cayman Islands Companies Law or any other applicable Cayman Islands law to be held, or the passing of an ordinary resolution by the Shareholders revoking or varying the authority given to our Directors, whichever occurs first;
- (vi) a general unconditional mandate (the “**Repurchase Mandate**”) was given to our Directors to exercise all powers of our Company to purchase or repurchase Shares 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, with an aggregate number of Shares not exceeding 10% of the aggregate number of issued Shares immediately following completion of the Capitalization Issue and the Global Offering (but excluding any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or any options to be granted under the Share

Option Scheme) until the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Memorandum and Articles of Association, the Cayman Islands Companies Law or any applicable Cayman Islands law to be held, or the passing of an ordinary resolution by the Shareholders revoking or varying the authority given to our Directors, whichever occurs first; and

(vii) the extension of the general mandate to allot, issue and deal with Shares pursuant to paragraph (v) above to include the number of Shares which may be purchased or repurchased pursuant to paragraph (vi) above.

(e) our Company approved the form and substance of each of the service contracts made between the executive Directors and our Company, and the form and substance of each of the appointment letters made between each of our non-executive Director and independent non-executive Directors with our Company.

4. Group reorganization

The companies comprising our Group underwent a reorganization to rationalize our Group's structure in preparation for the listing of the Shares on the Stock Exchange. Please see the section headed "History, Reorganization and Group Structure" of this prospectus for details.

5. Changes in share capital of our subsidiaries and our Consolidated Affiliated Entities

The subsidiaries of our Company and our Consolidated Affiliated Entities are listed in the Accountants' Report set out in Appendix IA and IB to this prospectus. Save as disclosed below and in the section headed "History, Reorganization and Group Structure" of this prospectus, there are no changes in the share capital of our Company's subsidiaries and our Consolidated Affiliated Entities during the two years preceding the date of this prospectus:

Beijing Fengyun

On 10 October 2017, the then shareholder of Beijing Fengyun, Ms. Lai Yujun (賴鈺君女士), entered into an equity transfer agreement with Mr. Xu Zibin (徐自彬先生), whereby Ms. Lai Yujun transferred her 100% equity interest in Beijing Fengyun to Mr. Xu Zibin at nil consideration. The aforesaid equity transfer was approved by Beijing SAIC on 3 November 2017 and as a result, Beijing Fengyun was wholly-owned by Mr. Xu Zibin.

On 26 January 2018, Mr. Xu Zibin entered into an equity transfer agreement with Jinyi Electronic, whereby Mr. Xu Zibin transferred his 100% equity interest in Beijing Fengyun to Jinyi Electronic at nil consideration. The aforesaid equity transfer was approved by Beijing SAIC on 29 January 2018.

Our PRC Legal Advisers confirm that the registered capital of Beijing Fengyun in the amount of RMB10,000,000 had been fully paid-up as at 27 December 2017.

Beijing Xinlian

On 5 January 2018, the then shareholder of Beijing Xinlian, Mr. Kang Le (康樂先生), entered into an equity transfer agreement with Jinyi Electronic, whereby Mr. Kang Le transferred his 100% equity interest in Beijing Xinlian to Jinyi Electronic at nil consideration. The aforesaid equity transfer was approved by Beijing SAIC on 25 January 2018 and as a result, Beijing Xinlian was wholly-owned by Jinyi Electronic.

Our PRC Legal Advisers confirm that the registered capital of Beijing Xinlian in the amount of RMB10,000,000 had been fully paid-up as at 25 December 2017.

6. Securities repurchase mandate

This paragraph includes information required by the Stock Exchange to be included in this prospectus concerning the repurchase by our Company of its own securities.

(a) Shareholders' approval

All proposed repurchases of securities (which must be fully paid up in the case of shares) by a company listed on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholder, either by way of general mandate or by specific approval of a particular transaction.

Pursuant to a resolution in writing passed by the Shareholders on 21 February 2020, the Repurchase Mandate was given to our Directors to exercise all powers of our Company to purchase or repurchase by our Company of Shares on the Stock Exchange or 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, with an aggregate number of Shares not exceeding 10% of the aggregate number of issued Shares immediately following completion of the Capitalization Issue and the Global Offering (but excluding any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or any option to be granted under the Share Option Scheme), such mandate to expire at the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Memorandum and Articles of Association, the Cayman Islands Companies Law or applicable Cayman Islands law to be held, or the passing of an ordinary resolution by Shareholders in general meeting revoking or varying the authority given to our Directors, whichever occurs first.

(b) Source of funds

Repurchases must be paid out of funds legally available for the purpose in accordance with the Memorandum and Articles of Association and the Cayman Islands Companies Law. A listed company may not repurchase 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. Under the Cayman Islands laws, any repurchases by our Company may be made out of profits of our Company or out of the proceeds of a fresh issue of Shares made for the purpose of the repurchase or, if so authorized by the Memorandum and Articles of Association and subject to the provisions of the Cayman Islands Companies Law, out of capital.

Any premium payable on a redemption or purchase over the par value of the Shares to be purchased must be provided for out of the profits of our Company or from sums standing to the credit of the share premium account of our Company or, if authorized by the Memorandum and Articles of Association and subject to the provisions of the Cayman Islands Companies Law, out of capital.

(c) Reasons for repurchases

Our Directors believe that it is in the best interest of our Company and the 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 if our Directors believe that such repurchases will benefit our Company and the Shareholders.

(d) Funding of repurchases

In repurchasing securities, our Company may only apply funds legally available for such purpose in accordance with the Memorandum and Articles of Association, the Listing Rules and the applicable laws of the Cayman Islands.

On the basis of the current financial position of our Group as disclosed in this prospectus and taking into account the current working capital position of our Group, our Directors consider that, if the Repurchase Mandate were to be exercised in full, it might have a material adverse effect on the working capital and/or the gearing position of our Group as compared with the position disclosed in this prospectus. However, our Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Group or the gearing levels which in the opinion of our Directors are from time to time appropriate for our Group.

The exercise in full of the Repurchase Mandate, on the basis of 546,000,000 Shares in issue immediately after the Listing, would result in up to 54,600,000 Shares being repurchased by our Company during the period in which the Repurchase Mandate remains in force.

(e) General

None of our Directors or, to the best of their knowledge having made all reasonable enquiries, any of their close associates currently intends to sell any Shares to our Company or our subsidiaries.

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, the Memorandum and Articles of Association, and the applicable laws of the Cayman Islands.

If, as a result of a securities repurchase, a Shareholder's proportionate interest in the voting rights of our Company is increased, such increase will be treated as an acquisition for the purpose of the Takeovers Code. 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.

Our Directors will not exercise the Repurchase Mandate if the repurchase would result in the number of Shares which are in the hands of the public falling below 25% of the total number of Shares in issue (or such other percentage as may be prescribed as the minimum public shareholding under the Listing Rules).

No core connected person (as defined in the Listing Rules) of our Company has notified our Company that he/she/it has a present intention to sell Shares to our Company, or has undertaken not to do so if the Repurchase Mandate is exercised.

B. FURTHER INFORMATION ABOUT THE BUSINESS OF OUR COMPANY

1. Summary of material contracts

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of our Group within the two years preceding the date of this prospectus and are or may be material:

- (a) the Management Services Agreement dated 23 February 2019 entered into among WFOE, Guangzhou Jiu Zun and the Relevant Shareholders, as further set out in the section headed "Contractual Arrangements — Summary of the Material Terms of the Contractual Arrangements — Management Services Agreement" of this prospectus;

- (b) the Irrevocable Option Agreement dated 23 February 2019 entered into among WFOE, Guangzhou Jiu Zun and the Relevant Shareholders, as further set out in the section headed “Contractual Arrangements — Summary of the Material Terms of the Contractual Arrangements — Irrevocable Option Agreement” of this prospectus;
- (c) the Equity Pledge Agreement dated 23 February 2019 entered into among WFOE, Guangzhou Jiu Zun and the Relevant Shareholders, as further set out in the section headed “Contractual Arrangements — Summary of the Material Terms of the Contractual Arrangements — Equity Pledge Agreement” of this prospectus;
- (d) the Intellectual Property Transfer and Licence Agreement dated 23 February 2019 entered into among WFOE, Guangzhou Jiu Zun and the Relevant Shareholders, as further set out in the section headed “Contractual Arrangements — Summary of the Material Terms of the Contractual Arrangements — Intellectual Property Transfer and Licence Agreement” of this prospectus;
- (e) the Voting Rights Proxy Agreement dated 23 February 2019 entered into among WFOE, Guangzhou Jiu Zun and the Relevant Shareholders, as further set out in the section headed “Contractual Arrangements — Summary of the Material Terms of the Contractual Arrangements — Voting Rights Proxy Agreement and Powers of Attorney” of this prospectus;
- (f) the Subscription Agreement dated 28 May 2018 entered into among our Company as issuer, AEM PIPO and AE Majoris Tech as subscribers, pursuant to which AE Majoris Tech and AEM PIPO agreed to subscribe for the zero coupon convertible bonds issued by our Company in the aggregate principal amount of HK\$19,000,000 (i.e. the Pre-IPO Convertible Bonds), as further set out in the section headed “History, Reorganization and Group Structure — Pre-IPO Investment — Overview” of this prospectus;
- (g) the Pre-IPO Convertible Bonds Instrument dated 29 May 2018 executed by our Company constituting the Pre-IPO Convertible Bonds;
- (h) the Supplemental Deed to the Pre-IPO Convertible Bonds Instrument dated 20 December 2019 executed by our Company for, among others, extending the maturity date of the Pre-IPO Convertible Bonds to 30 June 2020 and amending the redemption condition of the Pre-IPO Convertible Bonds in respect of our Company’s failure to achieve Listing by a certain date;
- (i) the Deed of Indemnity dated 21 February 2020 and executed by our Controlling Shareholders in favor of our Company, as further set out in the section headed “Statutory and General Information — D. Other Information — 2. Estate duty, tax and other indemnity” in Appendix IV to this prospectus; and

(j) the Hong Kong Underwriting Agreement.

2. Material Intellectual property rights of our Group

(a) Trademarks

As at the Latest Practicable Date, our Group has obtained all material intellectual property rights for its operations and is the registered proprietor and beneficial owner of the following material trademarks:

No.	Trademarks	Place of Registration	Class	Registration Number	Duration of Validity	Registered Owner
1	Jiu Zun Digital Interactive Entertainment	Hong Kong	9, 35, 41, 42 (Notes)	304565818	13 December 2018 to 14 June 2028	Family Doctor
2	九尊數字互娛	Hong Kong	9, 35, 41, 42 (Notes)	304565809	13 December 2018 to 14 June 2028	Family Doctor
3		Hong Kong	9, 35, 41, 42 (Notes)	304565827	25 October 2018 to 14 June 2028	Family Doctor
4	Jiu Zun Digital Interactive Entertainment	PRC	9, 35, 41, 42 (Notes)	30286622	14 May 2019 to 13 May 2029	Family Doctor
5	九尊數字互娛	PRC	9, 41, 42 (Notes)	30286623	28 May 2019 to 27 May 2029	Family Doctor
6		PRC	41, 42 (Notes)	30286624	14 May 2019 to 13 May 2029	Family Doctor
7	九尊數字互娛	Hong Kong	9, 35, 41, 42 (Notes)	304946590	3 June 2019 to 2 June 2029	Family Doctor
8	 九尊數字互娛 Jiu Zun Digital Interactive Entertainment	Hong Kong	9, 35, 41, 42 (Notes)	304946608	3 June 2019 to 2 June 2029	Family Doctor

Notes:

- (1) The specific goods and/or services under class 9 are scientific, nautical, surveying, photographic, cinematographic, optical, weighing, measuring, signaling, checking (supervision), life-saving and teaching apparatus and instruments; apparatus and instruments for conducting, switching, transforming, accumulating, regulating or controlling electricity; apparatus for recording, transmission or reproduction of sound or images; magnetic data carriers, recording discs; compact discs, DVDs and other digital recording media; mechanisms for coin-operated apparatus; cash registers, calculating machines, data processing equipment, computers; computer software; fire-extinguishing apparatus.

- (2) The specific services under class 35 are advertising; business management; business administration; office functions.
- (3) The specific services under class 41 are education; providing of training; entertainment; sporting and cultural activities.
- (4) The specific services under class 42 are scientific and technological services and research and design relating thereto; industrial analysis and research services; design and development of computer hardware and software.

(b) Software Copyrights

As at the Latest Practicable Date, our Group has obtained all material intellectual property rights for its operations and is the registered proprietor and beneficial owner of the following material software copyrights:

No.	Software Copyright	Place of Registration	Registration Number	Date of Registration	Registered Copyright Owner
1	95火辣機遊戲軟件V1.06.1	PRC	軟著登字第 1319130號	14 June 2016	Family Doctor
2	萌將春秋OL遊戲軟件V1.0	PRC	軟著登字第 1319349號	14 June 2016	Family Doctor
3	亂世三國志遊戲軟件V2.0	PRC	軟著登字第 1340771號	30 June 2016	Family Doctor
4	天天酷飛遊戲軟件V2.0	PRC	軟著登字第 1340773號	30 June 2016	Family Doctor
5	夢想三國酷跑遊戲軟件V1.0	PRC	軟著登字第 1774523號	18 May 2017	Family Doctor
6	多彩泡泡堂遊戲軟件V1.0	PRC	軟著登字第 1793724號	25 May 2017	Family Doctor
7	太空奇兵遊戲軟件V1.0	PRC	軟著登字第 1793731號	25 May 2017	Family Doctor
8	開心泡泡大戰遊戲軟件V1.0	PRC	軟著登字第 1794256號	25 May 2017	Family Doctor
9	最佳炮手遊戲軟件V1.0	PRC	軟著登字第 1902619號	27 June 2017	Family Doctor

No.	Software Copyright	Place of Registration	Registration Number	Date of Registration	Registered Copyright Owner
10	夢想三國之勇往直擊遊戲軟件V1.0	PRC	軟著登字第 2236645號	27 November 2017	Family Doctor
11	貓咪出動遊戲軟件V1.0	PRC	軟著登字第 1349390號	7 July 2016	Jinyi Electronic
12	忍者小分隊遊戲軟件V1.0	PRC	軟著登字第 1349707號	7 July 2016	Jinyi Electronic
13	機智的小鳥遊戲軟件V1.0	PRC	軟著登字第 1307073號	2 June 2016	Family Communications
14	撞死鳥糖果版遊戲軟件V1.0	PRC	軟著登字第 1307131號	2 June 2016	Family Communications
15	終極闖關遊戲軟件V1.0	PRC	軟著登字第 1329393號	22 June 2016	Family Communications
16	冒險傳奇遊戲軟件V1.0	PRC	軟著登字第 1367442號	21 July 2016	Family Communications
17	我是一條魚遊戲軟件V1.0	PRC	軟著登字第 1430903號	7 September 2016	Beijing Fengyun
18	全民打恐龍遊戲軟件V1.0	PRC	軟著登字第 1395535號	15 August 2016	Beijing Fengyun
19	闖關專家遊戲軟件V1.0	PRC	軟著登字第 1463245號	9 October 2016	Beijing Fengyun
20	英雄三國志遊戲軟件V1.0	PRC	軟著登字第 1510787號	16 November 2016	Beijing Fengyun

(c) Domain names

As at the Latest Practicable Date, our Group has registered the following domain names which are material to our business:

No.	Domain Name	Date of Registration	Expiry Date	Registrant
1.	www.jiuzundigital.com	17 December 2018	17 December 2021	Guangzhou Jiu Zun

3. Exemption from requirement of a property valuation report

For the purpose of Chapter 5 of the Listing Rules, as no single property interest that formed part of our non-property activities had a carrying amount of 15% or more of our total assets, this prospectus is not required to include any valuation report of our property interests.

Pursuant to section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong), this prospectus is exempted from compliance with requirements of section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, which requires a valuation report with respect to all our Group's assets in land or buildings.

4. Connected transactions and related party transactions

Save as disclosed in the section headed “Connected Transactions” of this prospectus and the section headed “Accountants’ Report — Note 30. Related Party Transactions” in Appendix I to this prospectus, during the two years immediately preceding the date of this prospectus, our Company has not engaged in any other material connected transactions or related party transactions.

C. FURTHER INFORMATION ABOUT DIRECTORS AND SUBSTANTIAL SHAREHOLDERS**1. Directors*****(a) Disclosure of interests of our Directors***

- (i) Each of Mr. Liang, Mr. Lu, Ms. Su and Mr. Tsui is interested in the Reorganization, the Pre-IPO Investment and the transactions as contemplated under the material contracts as set out in “B. Further Information about the Business of Our Company — 1. Summary of material contracts” in this appendix.
- (ii) Save as disclosed in this prospectus, none of our Directors or their associates were engaged in any dealings with our Group during the two years preceding the date of this prospectus.

*(b) Particulars of Directors' service contracts**Executive Directors*

Each of the executive Directors has entered into a service contract with our Company for a term of three years commencing from the Listing Date until terminated by not less three months' notice in writing served by either party on the other. Each of the executive Directors is entitled to their respective basic salaries set out below.

The current basic annual salaries of the executive Directors payable under their service contracts with our Company are as follows:

Name	Approximate annual salary
	(HK\$)
LIANG Junhua (梁俊華)	420,000
LU Jian (呂建)	504,000

Non-executive Director

The non-executive Directors have been appointed for an initial term of three years commencing from the Listing Date pursuant to a letter of appointment. Either our Company or the non-executive Directors may give a three months' written notice to the other party for early termination of appointment. The appointment is subject to the provisions of the Articles with regard to vacation of office of Directors, removal and retirement by rotation of Directors. Each of the non-executive Directors are entitled to a director's fee of HK\$360,000 per annum. Except for the director's fees, none of the non-executive Directors is expected to receive any other remuneration for holding their office as a non-executive Director.

Independent non-executive Directors

Each of the independent non-executive Directors has been appointed for an initial term of three years commencing from the Listing Date pursuant to a letter of appointment. Either our Company or the independent non-executive Directors may give a three months' written notice to the other party for early termination of appointment. The appointments are subject to the provisions of the Articles with regard to vacation of office of Directors, removal and retirement by rotation of Directors. Each of the independent non-executive Directors is entitled to a director's fee of HK\$180,000 per annum. Save for directors' fees, none of the independent non-executive Directors is expected to receive any other remuneration for holding their office as an independent non-executive Director.

Save as aforesaid, none of our Directors has or is proposed to have a service contract with our Company, any of our subsidiaries, or our Consolidated Affiliated Entities (excluding contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

(c) Directors remuneration

- (i) The aggregate amount of fees, salaries, allowances and benefits in kind, and pension scheme contributions paid or payable by us to our Directors in respect of each of FY2016, FY2017, FY2018 and 9M2019 were approximately RMB109,000, RMB23,000, RMB60,000 and RMB47,000, respectively.
- (ii) Under the arrangements currently in force, the aggregate amount of remuneration payable by us to, and allowances and benefits in kind receivable by, our Directors for the year ended 31 December 2020 are expected to be approximately RMB1.9 million (excluding discretionary bonus).
- (iii) None of our Directors or any past directors of any member of our Group has been paid any sum of money for each of the three years ended 31 December 2016, 2017, 2018 and 9M2019 (i) as an inducement to join or upon joining our Group or (ii) for loss of office as a director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group.
- (iv) There has been no arrangement under which a Director has waived or agreed to any emoluments for each of the three years ended 31 December 2016, 2017, 2018 and 9M2019.

(d) Interests and short positions of Directors in the Shares, underlying Shares or debentures of our Company and our associated corporations

Immediately following completion of the full conversion of the Pre-IPO Convertible Bonds, the Capitalization Issue and the Global Offering and taking no account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and the options to be granted under the Share Option Scheme, the interests and short positions of our Directors in the shares, underlying shares or debentures of our Company and our associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are 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 in the register referred to therein, or which will be required to notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, once the Shares are listed, will be as follows:

(i) Our Company

Name of Director	Capacity/Nature of Interest	Number of Shares or securities held ⁽¹⁾	Approximate percentage of shareholding
Mr. Liang ⁽²⁾⁽⁵⁾	Interest in a controlled corporation / interest held jointly with other persons	337,688,008 (L)	61.85%
Mr. Lu ⁽³⁾⁽⁵⁾	Interest in a controlled corporation / interest of spouse / interest held jointly with other persons	337,688,008 (L)	61.85%
Ms. Su ⁽⁴⁾⁽⁵⁾	Interest in a controlled corporation / interest held jointly with other persons	337,688,008 (L)	61.85%
Mr. Tsui ⁽⁶⁾	Interest in a controlled corporation	16,801,570 (L)	3.07%

Notes:

- (1) The letter “L” denotes a person’s long position in our Shares.
- (2) Mr. Liang is the sole shareholder of JLCY SAGA which holds 126,632,022 Shares (representing approximately 23.19% of the shareholding of our Company) upon the completion of the full conversion of the Pre-IPO Convertible Bonds, the Capitalization Issue and the Global Offering. By virtue of the SFO, Mr. Liang is deemed to be interested in the Shares in which JLCY SAGA is interested.
- (3) Mr. Lu and Ms. He owns 99.90% and 0.10% shareholding in LJHJH SAGA respectively. LJHJH SAGA holds 105,527,993 Shares (representing approximately 19.33% of the shareholding of our Company) upon the completion of the full conversion of the Pre-IPO Convertible Bonds, the Capitalization Issue and the Global Offering. Mr. Lu is the husband of Ms. He. By virtue of the SFO, each of Mr. Lu and Ms. He is deemed to be interested in the Shares in which LJHJH SAGA is interested.
- (4) Ms. Su is the sole shareholder of WW SAGA which holds 105,527,993 Shares (representing approximately 19.33% of the shareholding of our Company) upon the completion of the full conversion of the Pre-IPO Convertible Bonds, the Capitalization Issue and the Global Offering. By virtue of the SFO, Ms. Su is deemed to be interested in the Shares in which WW SAGA is interested.
- (5) Pursuant to the Second Acting-In-Concert Confirmation, Mr. Liang, Mr. Lu and Ms. Su are parties acting in concert. As such, each of Mr. Liang, Mr. Lu and Ms. Su is deemed to be interested in the Shares held by the others under the SFO.
- (6) Mr. Tsui holds 86.67% shareholding in AE Majoris Tech which holds 16,801,570 Shares (representing approximately 3.07% of the shareholding of our Company) upon the completion of the full conversion of the Pre-IPO Convertible Bonds, the Capitalization Issue and the Global Offering. By virtue of the SFO, Mr. Tsui is deemed to be interested in the Shares in which AE Majoris Tech is interested.

(ii) *Our Company's associated corporations*

Name of Director	Name of our Company's associated corporation	Capacity / Nature of interest	Approximate percentage of shareholding
Mr. Liang	JLCY SAGA	Interest in a controlled corporation	100%
	Guangzhou Jiu Zun ⁽¹⁾	Beneficial interest / interest held jointly with other persons	86.02%
Mr. Lu	LJHJH SAGA	Interest in a controlled corporation	100%
	Guangzhou Jiu Zun ⁽²⁾	Interest in a controlled corporation / interest of spouse / interest held jointly with other persons	86.02%
Ms. Su	WW SAGA	Interest in a controlled corporation	100%
	Guangzhou Jiu Zun ⁽³⁾	Interest in a controlled corporation / interest held jointly with other persons	86.02%

Notes:

1. Mr. Liang owns 32.26% capital contribution in Guangzhou Jiu Zun. Pursuant to the Second Acting-In-Concert Confirmation, Mr. Liang, Mr. Lu and Ms. Su are parties acting in concert. Mr. Liang, Mr. Lu and Ms. Su directly or indirectly own an aggregate of 86.02% capital contribution in Guangzhou Jiu Zun. As such, Mr. Liang is deemed to be interested in 86.02% capital contribution in Guangzhou Jiu Zun under the SFO.
2. Mr. Lu owns 100% capital contribution in Yingtan Jianming Investment, which in turn owns 99.90% capital contribution in Yujiang Yingming Investment, which in turn owns 26.88% capital contribution in Guangzhou Jiu Zun. Ms. He owns 100% capital contribution in Yingtan Jianying Investment, which in turn owns 0.10% capital contribution in Yujiang Yingming Investment. Mr. Lu is the husband of Ms. He. By virtue of the SFO, each of Mr. Lu and Ms. He is deemed to be interested in the capital contribution in which their spouse is interested. As such, Mr. Lu is deemed to be interested in 26.88% capital contribution in Guangzhou Jiu Zun in which Yujiang Yingming Investment is interested. Pursuant to the Second Acting-In-Concert Confirmation, Mr. Liang, Mr. Lu and Ms. Su are parties acting in concert. Mr. Liang, Mr. Lu and Ms. Su directly or indirectly own an aggregate of 86.02% capital contribution in Guangzhou Jiu Zun. As such, Mr. Lu is deemed to be interested in 86.02% capital contribution in Guangzhou Jiu Zun under the SFO.
3. Ms. Su owns 100% capital contribution in each of Yingtan Jiancheng Investment and Yingtan Jianhe Investment. Yingtan Jiancheng Investment and Yingtan Jianhe Investment own 99.90% and 0.10% capital contribution in Yujiang Chenghe Investment respectively, which in turn owns 26.88% capital contribution in Guangzhou Jiu Zun. Pursuant to the Second Acting-In-Concert Confirmation, Mr. Liang, Mr. Lu and Ms. Su are parties acting in concert. Mr. Liang, Mr. Lu and Ms. Su directly or indirectly own an aggregate of 86.02% capital contribution in Guangzhou Jiu Zun. As such, Ms. Su is deemed to be interested in 86.02% capital contribution in Guangzhou Jiu Zun under the SFO.

2. Interests and short positions disclosable under the Divisions 2 and 3 of Part XV of the SFO

For information on the persons who will, immediately following the completion of the full conversion of the Pre-IPO Convertible Bonds, the Capitalization Issue and the Global Offering (without taking into account any Shares which may be allotted and issued upon exercise of the Over-allotment Option and the options to be granted under the Share Option Scheme), have or be deemed to have or taken to have interests or short position in the Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of 2 and 3 of Part XV of the SFO, or directly or indirectly be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group please see the section headed “Substantial Shareholders ” of this prospectus.

Save as set out above, as of the Latest Practicable Date, our Directors were not aware of any persons who would, immediately following the completion of the full conversion of the Pre-IPO Convertible Bonds, the Capitalization Issue and the Global Offering (without taking into account any Shares which may be allotted and issued upon exercise of the Over-allotment Option and the options to be granted under the Share Option Scheme), 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 other member of our Group.

3. Disclaimers

Save as disclosed in this prospectus:

- (a) none of our Directors has any interest or short position in any of the shares, underlying shares or debentures of our Company or any 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 any of them is deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered 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 Issuers, in each case once the Shares are listed;
- (b) none of our Directors nor any of the parties listed in “D. Other Information — 9. Qualifications of experts” in this appendix has been interested in the promotion of, or has any direct or indirect interest in any assets which have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to our Company, any of our subsidiaries, or our Consolidated Affiliated Entities of our Company, or are proposed to be acquired or disposed of by or leased to our Company or any other member of our Group nor will any Director apply for the Offer Shares either in his own name or in the name of a nominee;

- (c) none of our Directors nor any of the parties listed in “D. Other Information — 9. Qualifications of experts” in this appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to business of our Group; and
- (d) save in connection with the Underwriting Agreements, none of the parties listed in “D. Other Information — 9. Qualifications of experts” in this appendix:
 - (i) is interested legally or beneficially in any securities of any member of our Group; or
 - (ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

D. OTHER INFORMATION

1. Share Option Scheme

The following is a summary of the principal terms of the Share Option Scheme conditionally adopted by the written resolutions of all Shareholders passed on 21 February 2020.

(a) Purpose

The Share Option Scheme is a share incentive scheme and is established to recognize and acknowledge the contributions the Eligible Participants (as defined in paragraph (b) below) have had or may have made to our Group. The Share Option Scheme will provide the Eligible Participants an opportunity to have a personal stake in our Company with the view to achieving the following objectives:

- (i) motivating the Eligible Participants to optimize their performance efficiency for the benefit of our Group; and
- (ii) attracting and retaining or otherwise maintaining on-going business relationships with the Eligible Participants whose contributions are or will be beneficial to the long-term growth of our Group.

(b) Who may join

The Board may, at its discretion, offer to grant an option to subscribe for such number of new Shares as the Board may determine at an exercise price determined in accordance with paragraph (f) below to the following persons (the “**Eligible Participants**”):

- (i) any full-time or part-time employees, executives or officers of our Company, any of our subsidiaries or any of our Consolidated Affiliated Entities;
- (ii) any Directors (including non-executive Director and independent non-executive Directors) of our Company, any of our subsidiaries or any of our Consolidated Affiliated Entities;
- (iii) any advisors, consultants, suppliers, customers and agents to our Company, any of our subsidiaries or any of our Consolidated Affiliated Entities; and
- (iv) such other persons who, in the sole opinion of the Board, will contribute or have contributed to our Group, the assessment criteria of which are:
 - (aa) contribution to the development and performance of our Group;
 - (bb) quality of work performed for our Group;
 - (cc) initiative and commitment in performing his/her duties; and
 - (dd) length of service or contribution to our Group.

(c) Acceptance of an offer of options

An option shall be deemed to have been granted and accepted by the grantee and to have taken effect when the duplicate offer document constituting acceptance of the options duly signed by the grantee, together with a remittance in favor of our Company of HK\$1.00 by way of consideration for the grant thereof, is received by our Company on or before the relevant acceptance date. Such payment shall in no circumstances be refundable. Any offer to grant an option to subscribe for Shares may be accepted in respect of less than the number of Shares for which it is offered provided that it is accepted in respect of a board lot for dealing in Shares on the Stock Exchange or an integral multiple thereof and such number is clearly stated in the duplicate offer document constituting acceptance of the option. To the extent that the offer to grant an option is not accepted by any prescribed acceptance date, it shall be deemed to have been irrevocably declined.

Subject to paragraphs (l), (m), (n), (o) and (p), an option shall be exercised in whole or in part and, other than where it is exercised to the full extent outstanding, shall be exercised in integral multiples of such number of Shares as shall represent one board lot for dealing in Shares on the Stock Exchange for the time being, by the grantee by giving notice in writing to our Company stating that the option is thereby exercised and the number of Shares in respect of which it is exercised. Each such notice must be accompanied by a remittance for the full amount of the exercise price for the Shares in respect of which the notice is given.

Within 21 days after receipt of the notice and the remittance and, where appropriate, receipt of the certificate by the auditors to our Company or the approved independent financial advisor as the case may be pursuant to paragraph (r), our Company shall allot and issue the relevant number of Shares to the grantee credited as fully paid and issue to the grantee certificates in respect of the Shares so allotted.

The exercise of any option shall be subject to the Shareholders in general meeting approving any necessary increase in the authorized share capital of our Company.

(d) Maximum number of Shares

The maximum number of Shares in respect of which options may be granted (including Shares in respect of which options, whether exercised or still outstanding, have already been granted) under the Share Option Scheme and under any other share option schemes of our Company must not in aggregate exceed 10% of the total number of Shares in issue on the Listing Date, being 54,600,000 Shares (the “**Scheme Limit**”), excluding for this purpose Shares which would have been issuable pursuant to options which have lapsed in accordance with the terms of the Share Option Scheme (or any other share option schemes of our Company). Subject to the issue of a circular by our Company and the approval of the Shareholders in general meeting and/or such other requirements prescribed under the Listing Rules from time to time, the Board may:

- (i) renew this limit at any time to 10% of the Shares in issue as at the date of the approval by the Shareholders in general meeting; and/or
- (ii) grant options beyond the Scheme Limit to Eligible Participants specifically identified by the Board. The circular issued by our Company to the Shareholders shall contain a generic description of the specified Eligible Participants who may be granted such options, the number and terms of the options to be granted, the purpose of granting options to the specified Eligible Participants with an explanation as to how the options serve such purpose, the information required under Rule 17.02(2)(d) and the disclaimer required under Rule 17.02(4) of the Listing Rules.

Notwithstanding the foregoing, the Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of our Company at any time shall not exceed 30% of the Shares in issue from time to time (the “**Maximum Limit**”). No options shall be granted under any schemes of our Company (including the Share Option Scheme) if this will result in the Maximum Limit being exceeded. 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 an approved independent financial advisor shall certify to be appropriate, fair and reasonable in the event of any alteration in the capital structure of our Company in accordance with paragraph (r) below whether by way of capitalization issue, rights issue, consolidation, or sub-division of shares or reduction of the share capital of our Company but in no event shall exceed the limit prescribed in this paragraph.

(e) Maximum number of options to any one individual

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option schemes of our Company (including both exercised, outstanding options and Shares which were the subject of options which have been granted and accepted under the Share Option Scheme and any other share option schemes of our Company but subsequently canceled) to each Eligible Participant in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue as at the date of grant. Any further grant of options in excess of this 1% limit shall be subject to:

- (i) the issue of a circular by our Company to the Shareholders containing the identity of the Eligible Participant, the numbers of and terms of the options to be granted (and options previously granted to such participant), the information as required under Rules 17.02(2)(d) and the disclaimer required under 17.02(4) of the Listing Rules; and
- (ii) the approval of our Shareholders in general meeting and/or other requirements prescribed under the Listing Rules from time to time with such Eligible Participant and his close associates (or his associates if such Eligible Participant is a connected person) abstaining from voting. The numbers and terms (including the exercise price) of options to be granted to such participant must be fixed before our Shareholders’ approval and the date of the Board meeting at which our Board proposes to grant the options to such Eligible Participant shall be taken as the date of grant for the purpose of calculating the subscription price of our Shares. Our Board shall forward to such Eligible Participant an offer document in such form as our Board may from time to time determine (or, alternatively, documents accompanying the offer document) which state, among other things:
 - (aa) the Eligible Participant’s name, address and occupation;

- (bb) the date on which an option is offered to an Eligible Participant which must be a date on which the Stock Exchange is open for the business of dealing in securities;
- (cc) the date upon which an offer for an option must be accepted;
- (dd) the date upon which an option is deemed to be granted and accepted in accordance with paragraph (c);
- (ee) the number of Shares in respect of which the option is offered;
- (ff) the subscription price and the manner of payment of such price for the Shares on and in consequence of the exercise of the option;
- (gg) the date of the expiry of the option notice in respect of the exercise of the option;
- (hh) the method of acceptance of the option which shall, unless the Board otherwise determines, be as set out in paragraph (c); and
- (ii) such other terms and conditions (including, without limitation, any minimum period for which an option shall be held before it can be exercised and/or any performance targets which must be achieved before the option can be exercised) relating to the offer of the option which in the opinion of the Board are fair and reasonable but not being inconsistent with the Share Option Scheme and the Listing Rules.

(f) Price of Shares

The subscription price of a Share in respect of any particular option granted under the Share Option Scheme shall be such price as the Board in its absolute discretion shall determine, save that such price will not be less than the highest of:

- (i) the closing price of the Shares as stated in the Stock Exchange's daily quotation sheets on the date of grant, which must be a day on which the Stock Exchange is open for the business of dealing in securities;
- (ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five Business Days immediately preceding the date of grant; and
- (iii) the nominal value of a Share.

(g) Granting options to connected persons

Any grant of options to a Director, chief executive or substantial shareholder of our Company or any of their respective associates is required to be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the options). If the Board proposes to grant options to a substantial shareholder or any independent non-executive Director or their respective associates which will result in the number of Shares issued and to be issued upon exercise of options granted and to be granted (including options exercised, canceled 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 in excess of HK\$5 million or such other sum as may be from time to time provided under the Listing Rules, based on the closing price of the Shares as stated in the daily quotation sheets of the Stock Exchange at the date of each grant,

such further grant of options will be subject to the approval of the independent non-executive Directors as referred to in this paragraph, the issue of a circular by our Company to the Shareholders and the approval of the Shareholders in general meeting on a poll at which such grantees, their associates and all core connected persons (as defined in the Listing Rules) of our Company shall abstain from voting in favor of the resolution concerning the grant of such options, and/or such other requirements prescribed under the Listing Rules from time to time. Any vote taken at the meeting to approve the grant of such options shall be taken as a poll.

The circular to be issued by our Company to the Shareholders pursuant to the above paragraph shall contain the following information:

- (i) the details of the number and terms (including the exercise price) of the options to be granted to each selected Eligible Participant, which must be fixed before the Shareholders' meeting and the date of the Board meeting for proposing such further grant shall be taken as the date of grant for the purpose of calculating the exercise price of such options;
- (ii) a recommendation from the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the options) to the independent Shareholders as to voting;
- (iii) the information required under Rule 17.02(2)(c) and (d) and the disclaimer required under Rule 17.02(4) of the Listing Rules; and
- (iv) the information required under Rule 2.17 of the Listing Rules.

(h) Restrictions on the times of grant of Options

An offer of the grant of an option may not be made after inside information has come to the knowledge of our Company until the information has been announced in accordance with the Listing Rules. In particular, no options may be granted during the period commencing one month immediately preceding the earlier of:

- (i) the date of the Board meeting (such date to first be 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, or quarterly or other interim period (whether or not required under the Listing Rules);

and ending on the actual date of publication of the results announcement for such year, half year, quarterly or interim period (as the case may be), and where the grant of options is to a Director:

- (i) no Options shall be granted during the period of 60 days immediately preceding the publication date of the annual results or, if shorter, the period from the end of the relevant financial year up to the publication date of the results; and
- (ii) during the period of 30 days immediately preceding the publication date of the quarterly results (if any) and half-year results or, if shorter, the period from the end of the relevant quarterly or half-year period up to the publication date of the results.

(i) Rights are personal to grantee

An option is personal to the grantee and shall not be transferable or assignable. No grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest (legal or beneficial) in favor of any third party over or in relation to any option or attempt so to do (save that the grantee may nominate a nominee in whose name those Shares issued pursuant to the Share Option Scheme may be registered). Any breach of the foregoing shall entitle our Company to cancel any outstanding options or any part thereof granted to such grantee.

(j) Time of exercise of option and duration of the Share Option Scheme

An option may be exercised in accordance with the terms of the Share Option Scheme at any time after the date upon which the option is deemed to be granted and accepted and prior to the expiry of ten years from that date. The period during which an option may be exercised will be determined by our Board in its absolute discretion, save that no option may be exercised more than ten years after it has been granted. No option may be granted more than ten years after the Listing Date. Subject to earlier termination by our Company in general meeting or by our Board, the Share Option Scheme shall be valid and effective for a period of ten years from the Listing Date.

(k) Performance target

A grantee may be required to achieve any performance targets as the Board may then specify in the grant before any options granted under the Share Option Scheme can be exercised.

(l) Rights on ceasing employment or death

If the grantee of an option ceases to be an Eligible Participant:

- (i) by any reason other than death, ill-health, injury, disability or termination of his relationship with our Company, any of our subsidiaries and/or any of our Consolidated Affiliated Entities on one of more of the grounds specified in paragraph (m) below, the option to the extent not already exercised on the date of such cessation (which date shall be, in relation to a grantee who is an Eligible Participant by reason of his employment with our Group or any related entities, the last actual working day with our Group or the related entity whether salary is paid in lieu of notice or not) shall lapse automatically on the date of cessation; or
- (ii) by reason of death, ill-health, injury or disability (all evidenced to the satisfaction of our Board) and none of the events which would be a ground for termination of his relationship with our Group under paragraph (m) has occurred, the grantee or his personal representative(s) may exercise the option within a period of 12 months (or such longer period as our Board may determine) from the date of cessation of being an Eligible Participant or death to exercise the options in full (to the extent not already exercised).

(m) Rights on dismissal

If the grantee of an option ceases to be an Eligible Participant on the grounds that he has been guilty of serious misconduct, or has become insolvent, bankrupt or has made any arrangements or compromises with his creditors generally, or has been convicted of any criminal offense involving his integrity or honesty, his option will lapse and not be exercisable on and after the date of termination of his employment.

(n) Rights on takeover

If a general offer is made to all our Shareholders (or all such Shareholders other than the offeror and/or any person controlled by the offeror and/or any person acting in concert with the offeror (as defined in the Takeovers Code)) and such offer becomes or is declared unconditional during the option period of the relevant option, the grantee of an option shall be entitled to exercise the option in full (to the extent not already exercised) at any time within 14 days after the date on which the offer becomes or is declared unconditional.

(o) Rights on winding-up

In the event that a notice is given by our Company to its members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up our Company, our Company shall forthwith give notice thereof to all grantees and thereupon, each grantee (or his legal personal representative(s)) shall be entitled to exercise all or any of his options (to the extent not already exercised) at any time not later than two Business Days prior to the proposed general meeting of our Company referred to above by giving notice in writing to our Company, accompanied by a remittance for the full amount of the aggregate exercise price for Shares in respect of which the notice is given, whereupon 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 the relevant Shares to the grantee credited as fully paid.

(p) Rights on compromise or arrangement between our Company and its members or creditors

If a compromise or arrangement between our Company and its members and/or creditors is proposed for the purposes of a scheme for the reconstruction of our Company or its amalgamation with any other companies, our Company shall give notice to all the grantees of the options on the same day as it gives notice of the meeting to its members and/or creditors summoning the meeting to consider such a compromise or arrangement, and thereupon each grantee shall be entitled to exercise all or any of his options in whole or in part at any time prior to 12:00 noon (Hong Kong time) on the Business Day immediately preceding the date of the meeting directed to be convened by

the relevant court for the purposes of considering such compromise or arrangement and if there are more than one meeting for such purpose, the date of the first meeting.

With effect from the date of such meeting, the rights of all grantees to exercise their respective options shall forthwith be suspended. Upon such compromise or arrangement becoming effective, all options shall, to the extent that they have not been exercised, lapse and determine. If for any reason such compromise or arrangement does not become effective and is terminated or lapses, the rights of grantees to exercise their respective options shall with effect from such termination be restored in full (but only upon the extent not already exercised).

(q) Ranking of Shares

Our Shares to be allotted upon the exercise of an option will not carry voting rights until completion of the registration of the grantee (or such other person nominated by the grantee) as the holder thereof. Subject to the aforesaid, Shares allotted and issued on the exercise of options will rank *pari passu* in all respects with and shall have the same voting, dividend, transfer and other rights including those arising on liquidation of our Company as attached to the fully-paid Shares in issue on the date of issue and rights in respect of any dividend or other distributions paid or made on or after the date of issue, save that they will not rank for any rights attaching to Shares by reference to a record date preceding the date of allotment.

(r) Effect of alterations to capital

In the event of any alteration in the capital structure of our Company whilst any option may become or remains exercisable, whether by way of capitalization issue, rights issue, open offer (if there is a price dilutive element) consolidation, subdivision or redenomination of shares, or reduction of capital of our Company, such corresponding alterations (if any) shall be made in the number of Shares subject to any outstanding options, the exercise price per Share of each outstanding option, the Shares to which the option relates, the method of exercise of the option; and/or any combination thereof, as the auditors of our Company or an independent financial advisor shall certify in writing to our Board to be in their/his opinion fair and reasonable in compliance with the Listing Rules and the note thereto and the supplementary guidance attached to the letter from the Stock Exchange dated 5 September 2005 to all issuers relating to share option schemes. The capacity of the auditors of our Company or the approved independent financial advisor, as the case may be, in this paragraph is that of experts and not arbitrators and their certificate shall, in the absence of manifest error, be final and conclusive and binding on our Company and the grantees.

Any such alterations will be made on the basis that a grantee shall have the same proportion of the equity capital of our Company (as interpreted in accordance with the supplementary guidance attached to the letter from the Stock Exchange dated 5 September 2005 to all issuers relating to share option schemes) for which any grantee of an option is entitled to subscribe pursuant to the options held by him before such alteration provided that no such alteration shall be made if the effect of which would be to enable a Share to be issued at less than its nominal value. The issue of securities as consideration in a transaction is not to be regarded as a circumstance requiring any such alterations.

(s) Expiry of option

An option shall lapse automatically and shall not be exercisable (to the extent not already exercised) on the earliest of:

- (i) the date of expiry of the option as may be determined by our Board;
- (ii) the expiry of any of the periods referred to in paragraphs (l), (n), (o) or (p);
- (iii) the date upon which the scheme of arrangement of our Company referred to in paragraph (p) becomes effective;
- (iv) subject to paragraph (o), the date of commencement of the winding-up of our Company;
- (v) the date upon which the grantee ceases to be an Eligible Participant by reason of such grantee's termination of his relationship on the grounds that he has been guilty of serious misconduct, or has become insolvent, bankrupt or has made arrangements or compromises with his creditors generally, or has been convicted of any criminal offense involving his integrity or honesty. A resolution of our Board to the effect that the employment of a grantee has or has not been terminated on one or more of the grounds specified in this paragraph shall be conclusive; or
- (vi) the date upon which our Board shall exercise our Company's right to cancel the option at any time after the grantee commits a breach of paragraph (i) above or the options are canceled in accordance with paragraph (u) below.

(t) Alteration of the Share Option Scheme

The Share Option Scheme may be altered in any respect by resolution of our Board except that:

- (i) any alteration to the advantage of the grantees or the Eligible Participants (as the case may be) in respect of the matters contained in Rule 17.03 of the Listing Rules; or
- (ii) any material alteration to the terms and conditions of the Share Option Scheme or any change to the terms of options granted;

shall first be approved by the Shareholders in general meeting provided that if the proposed alteration shall adversely affect any option granted or agreed to be granted prior to the date of alteration or to reduce the proportion of the equity capital to which any person was entitled pursuant to such option prior to such alteration, such alteration shall be further subject to the grantees' approval in accordance with the terms of the Share Option Scheme. The amended terms of the Share Option Scheme must still comply with Chapter 17 of the Listing Rules and any change to the authority of the Board in relation to any alteration to the terms of the Share Option Scheme must be approved by Shareholders in general meeting.

(u) Period of the Share Option Scheme

The Share Option Scheme will remain force for a period of 10 years commencing on the date on which the Share Option Scheme is adopted.

(v) Cancellation of Options

Any cancellation of options granted but not exercised must be approved by the grantees of the relevant options in writing. For the avoidance of doubt, such approval is not required in the event that any option is canceled pursuant to paragraph (i).

(w) Termination of the Share Option Scheme

Our Company may by resolution in general meeting or our Board may at any time terminate the Share Option Scheme and in such event no further option shall be offered but the provisions of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any option granted prior thereto or otherwise as may be required in accordance with the provisions of the Share Option Scheme.

Options granted prior to such termination but not yet exercised at the time of termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

(x) Administration of the Board

The Share Option Scheme shall be subject to the administration of the Board whose decision as to all matters arising in relation to the Share Option Scheme or its interpretation or effect (save as otherwise provided herein) shall be final and binding on all parties.

(y) Conditions of the Share Option Scheme

The Share Option Scheme is conditional on:

- (i) the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the Shares which may fall to be issued pursuant to the exercise of options to be granted under the Share Option Scheme;
- (ii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, if relevant, as a result of the waiver of any such condition(s)) and not being terminated in accordance with the terms of the Underwriting Agreements or otherwise;
- (iii) passing of the necessary resolutions by our Shareholders to approve and adopt the rules of the Share Option Scheme and to authorize our Board to grant options under the Share Option Scheme and to allot and issue Shares pursuant to exercise of any options; and
- (iv) the commencement of dealings in our Shares on the Stock Exchange.

If the conditions in paragraph (x) above are not satisfied within six calendar months from the adoption date of the Share Option Scheme:

- (i) the Share Option Scheme shall forthwith determine;
- (ii) any option granted or agreed to be granted pursuant to the Share Option Scheme and any offer of such a grant shall be of no effect; and
- (iii) no person shall be entitled to any rights or benefits or be under any obligations under or in respect of the Share Option Scheme or any option granted thereunder.

(z) Disclosure in annual and interim reports

Our Company will disclose details of the Share Option Scheme in its annual reports and interim reports including the number of options, date of grant, exercise price, exercise period and vesting period during the financial year/period in the annual/interim reports in accordance with the Listing Rules in force from time to time.

As at the Latest Practicable Date, no option had been granted or agreed to be granted under the Share Option Scheme.

Application has been made to the Listing Committee for the listing of, and permission to deal in, the Shares which may fall to be issued pursuant to the exercise of the options to be granted under the Share Option Scheme, being 546,000,000 Shares in total.

2. Estate duty, tax and other indemnity

Each of Mr. Lu, Ms. He, Ms. Su, Mr. Liang, LJHJH SAGA, WW SAGA and JLCY SAGA (the “**Indemnifiers**”) has entered into the Deed of Indemnity in favor of our Company (for itself and as trustee for its subsidiaries) (being the material contract (g) referred to in “B. Further Information about the Business of Our Company — 1. Summary of material contracts” in this appendix) to provide indemnities to each member of our Group on a joint and several basis, in respect of, among other matters:

- (a) any liability for Hong Kong estate duty which might be incurred by any member of our Group by reason of any transfer of property (within the meaning of sections 35 and 43 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong) or the equivalent thereof under the laws of any jurisdiction outside Hong Kong) to any member of our Group at any time on or before the Listing;
- (b) any tax liabilities (including all fines, penalties, costs, charges, expenses and interests incidental or relating to the liability to taxation) which might be payable by any member of our Group in respect of any income, profits, gains, transactions, events, matters or things earned, accrued, received, entered into or occurring on or before the Listing Date, whether alone or in conjunction with any other circumstances whenever occurring and whether or not such tax liabilities are chargeable against or attributable to any other person, firm, company or corporation;
- (c) any liability which are suffered by our Group in connection with its non-compliance with applicable laws and requirements referred to in the paragraph headed “Business — Legal Proceedings and Compliance — Non-compliance matters” in this prospectus; and

- (d) any expenses, payments, sums, outgoings, fees, demands, claims, damages, losses, costs (including but not limited to legal and other professional costs), charges, liabilities, fines, penalties in connection with any failure, delay or defects of corporate or regulatory compliance or errors, discrepancies or missing documents in the statutory records of any member of our Group under, or any breach of any provision of, the Companies Ordinance or any other applicable laws, rules or regulations on or before the date on which the Global Offering becomes unconditional.

The Indemnifiers are under no liability under the Deed of Indemnity in respect of any taxation:

- (a) to the extent that full provision has been made for such taxation, liabilities or claim in the audited accounts of any member of our Group for the Track Record Period;
- (b) to the extent that such taxation or liability falling on any of the members of our Group in respect of any accounting period commencing on or after 1 January 2019 and ending on the Listing Date, where such taxation or liability would not have arisen but for some act or omission of, or transaction voluntarily entered into by, any member of our Group (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) without the prior written consent or agreement of the Indemnifiers, other than any such act, omission or transaction:
 - (i) carried out or effected in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets on or before the Listing Date; or
 - (ii) carried out, made or entered into pursuant to a legally binding commitment created on or before the Listing Date or pursuant to any statement of intention made in the prospectus; or
- (c) to the extent that such taxation or liabilities arise or are incurred as a result of the imposition of taxation as a consequence of any retrospective change in the law, rules and regulations or the interpretation or practice thereof by the Hong Kong Inland Revenue Department or the taxation authority of the PRC, or any other relevant authority (whether in Hong Kong or the PRC or any other part of the world) coming into force after the date of the Deed of Indemnity or to the extent such liability arises or is increased by an increase in rates of taxation, payments, fines, fees or premium as required by the PRC laws and regulations (as the case may be) after the date of the Deed of Indemnity with retrospective effect (except for the imposition of or an increase in the rate of Hong Kong profit tax or any tax of any part of the world on the profits of companies for the current or any earlier financial period);

- (d) to the extent that the relevant taxation or liability is discharged by another person who is not a member of our Group and that no member of our Group is required to reimburse such person in respect of the discharge of the liability; or
- (e) to the extent that any provision or reserve made for such taxation or liability in the audited accounts of any member of our Group for the Track Record Period which is finally established to be an over-provision or an excessive reserve, in which case the Indemnifiers' liability (if any) in respect of such taxation or liability shall be reduced by an amount not exceeding such provision or reserve, provided that the amount of any such provision or reserve applied referred to in this paragraph to reduce the Indemnifiers' liability in respect of such taxation or liability shall not be available in respect of any such liability arising thereafter.

Under the Deed of Indemnity, the Indemnifiers have also undertaken to us that he/she/it will indemnify to each member of our Group and at all times keep us fully indemnified, on a joint and several basis, from any depletion in or reduction in value of its assets or any loss (including all legal costs and suspension of operation), cost, expenses, damages or other liabilities which any member of our Group may incur or suffer arising from or in connection with the implementation of the Reorganization.

3. Litigation

As at the Latest Practicable Date, neither our Company, any of our subsidiaries nor any of our Consolidated Affiliated Entities is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to our Directors to be pending or threatened against our Company, any of our subsidiaries or any of our Consolidated Affiliated Entities, that would have a material adverse effect on the results of operations or financial condition of our Company.

4. Preliminary expenses

The preliminary expenses incurred by our Company are approximately HK\$42,588 and have been paid by our Company.

5. Promoters

Our Company has no promoter for the purpose of the Listing Rules. No cash, securities or other benefit had been paid, allotted or given within two years preceding the date of this prospectus, or proposed to be paid, allotted or given, to any promoter in connection with the Global Offering or the related transactions described in this prospectus.

6. Sole Sponsors' Independence

The Sole Sponsor satisfies the independence criteria applicable to sponsors as set out in Rule 3A.07 of the Listing Rules.

7. Agency fees or commissions received

The Underwriters will receive an underwriting commission, and the Sole Sponsor will receive a sponsor fee, as referred to in the section headed “Underwriting – Underwriting Arrangements and Expenses – Underwriting Commission and Expenses” in this prospectus.

8. Application for listing of Shares

The Sole Sponsor has made an application on behalf of our Company to the Listing Committee for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus and any Shares which may be issued upon the exercise of the Over-allotment Option and any options to be granted under the Share Option Scheme, being up to 10% of the Shares in issue on the Listing Date, on the Stock Exchange.

All necessary arrangements have been made to enable the securities to be admitted into CCASS.

9. Qualifications of experts

The qualifications of the experts who have given opinions and/or whose names are included in this prospectus are as follows:

Name	Qualification
Lego Corporate Finance Limited	Licensed corporation under the SFO to carry out Type 6 (advising on corporate finance) regulated activities (as defined in the SFO)
China Commercial Law Firm	Legal advisers to our Company as to PRC law
Conyers Dill & Pearman	Legal advisers to our Company as to Cayman Islands law
Ernst & Young	Certified public accountants
Frost & Sullivan	Industry consultant

10. Consents of experts

Each of the experts named in the paragraph headed “D. Other information — 9. Qualifications of experts” of this section has given and has not withdrawn its written consents to the issue of this prospectus with copies of its reports, valuation, letters or opinions (as the case may be) and the references to its names or summaries of opinions included herein in the form and context in which they respectively appear.

11. Binding effect

This prospectus shall have the effect, if an application is made in pursuance of it, of rendering all persons concerned bound by all of 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.

12. Taxation of holders of Shares***(a) Hong Kong***

Dealings in Shares registered on our Company’s Hong Kong branch register of members will be subject to Hong Kong stamp duty. The sale, purchase and transfer of Shares are subject to Hong Kong stamp duty, the current rate of which is 0.2% of the consideration or, if higher, the 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.

(b) The Cayman Islands

Under present Cayman Islands law, there is no stamp duty payable in the Cayman Islands on transfers of Shares if they are executed and remain outside the Cayman Islands.

(c) Consultation with professional advisors

Intending holders of Shares are recommended to consult their professional advisors if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in Shares or exercising any rights attaching to them. It is emphasized that none of our Company, our Directors or the other parties involved in the Global Offering can accept responsibility for any tax effect on, or liabilities of, holders of Shares resulting from their subscription for, purchase, holding or disposal of or dealing in Shares or exercising any rights attaching to them.

13. Miscellaneous

- (a) Save as disclosed herein:
 - (i) within two years preceding the date of this prospectus:
 - (aa) no share or loan capital of our Company, any of our subsidiaries or any of our Consolidated Affiliated Entities has been issued, agreed to be issued or is proposed to be issued fully or partly paid either for cash or for a consideration other than cash;
 - (bb) 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, any of our subsidiaries or any of our Consolidated Affiliated Entities; and
 - (cc) no commission has been paid or payable for subscribing or agreeing to subscribe, or procuring or agreeing to procure the subscriptions, for any shares in our Company, any of our subsidiaries or any of our Consolidated Affiliated Entities;
 - (ii) no share or loan capital of our Company, any of our subsidiaries or any of our Consolidated Affiliated Entities is under option or is agreed conditionally or unconditionally to be put under option;
- (b) our Directors confirm that there has been no material adverse change in the financial or trading position or prospects of our Group since 30 September 2019 (being the date to which the latest consolidated financial statements of our Group were made up);
- (c) there has not been any interruption in the business of our Group which may have or has had a significant effect on the financial position of our Group in the 12 months preceding the date of this prospectus;
- (d) our Group does not have any outstanding convertible debt securities or debentures; and
- (e) no Company within our Group is presently listed on any stock exchange or trade in any trading system.

14. Bilingual prospectus

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided under section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

APPENDIX V	DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG AND AVAILABLE FOR INSPECTION
-------------------	------------------------------------------------------------------------------------------------------------

1. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to a copy of this prospectus and delivered to the Registrar of Companies in Hong Kong for registration were, amongst other documents:

- (a) copies of the **WHITE, YELLOW and GREEN** Application Forms;
- (b) the written consents referred to under the paragraph headed “Statutory and General Information — D. Other Information — 10. Consents of experts” in Appendix IV to this prospectus; and
- (c) a copy of each of the material contracts referred to in the paragraph headed “Statutory and General Information — B. Further Information about the Business of our Company — 1. Summary of material contracts” in Appendix IV to this prospectus.

2. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Mayer Brown at 18th Floor, Prince’s Building, 10 Chater 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) the Memorandum of Association and the Articles of Association;
- (b) the Accountants’ Report prepared by Ernst & Young in respect of the historical financial information of our Group for each of the three years ended 31 December 2016, 2017 and 2018 and the nine months ended 30 September 2019, the text of which is set out in Appendix I to this prospectus respectively;
- (c) the report on the unaudited pro forma financial information of our Group from Ernst & Young, the text of which is set out in Appendix IIA to this prospectus;
- (d) the letters relating to the profit estimate of our Group for the year ended 31 December 2019 received from Ernst & Young and the Sole Sponsor, the texts of which are set out in Appendix IIB to this prospectus;
- (e) the combined audited consolidated financial statements of our Group for each of the three years ended 31 December 2016, 2017 and 2018 and the nine months ended 30 September 2019;

- (f) the Cayman Islands Companies Law;
- (g) the letter of advice issued by Conyers Dill & Pearman summarizing certain aspects of the Cayman Islands company law referred to in Appendix III to this prospectus;
- (h) the legal opinions issued by China Commercial Law Firm in respect of certain aspects of our Group and summary of PRC laws and regulations relating to our business;
- (i) the Frost & Sullivan Report;
- (j) the material contracts referred to in the paragraph headed “Statutory and General Information — B. Further Information about the Business of our Company — 1. Summary of material contracts” in Appendix IV to this prospectus;
- (k) the written consents referred to in the paragraph headed “Statutory and General Information — D. Other Information — 10. Consents of experts” in Appendix IV to this prospectus;
- (l) the Share Option Scheme; and
- (m) the service contracts and letter of appointments referred to in the paragraph headed “Statutory and General Information — C. Further Information about Directors and Substantial Shareholders — 1. Directors” in Appendix IV to this prospectus.



Jiu Zun Digital Interactive Entertainment Group Holdings Limited
九尊數字互娛集團控股有限公司