

祖龙娱乐有限公司 Archosaur Games Inc.

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 9990

GLOBAL OFFERING



Sole Sponsor



Sole Global Coordinator



Joint Bookrunners



IMPORTANT

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

ARCHOSAUR GAMES INC.

祖龙娱乐有限公司

(Incorporated in the Cayman Islands with limited liability)

GLOBAL OFFERING

Total Number of Offer Shares under the Global Offering	: 187,400,000 Shares (subject to the Over-allotment Option)
Number of Public Offer Shares	: 18,740,000 Shares (subject to adjustment)
Number of International Placing Shares	: 168,660,000 Shares (subject to the Over-allotment Option and adjustment)
Offer Price	: Not more than HK\$11.60 per Offer Share, plus brokerage of 1%, SFC transaction levy of 0.0027% and a Hong Kong Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)
Nominal value	: US\$0.00001 per Share
Stock code	: 9990

Sole Sponsor



Sole Global Coordinator



Joint Bookrunners



Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss whatsoever 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 "Appendix V — Documents Delivered to the Registrar of Companies and Available for Inspection — A. Documents Delivered to the Registrar of Companies of Hong Kong" 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. 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 documents referred to above.

The Offer Price is expected to be determined by agreement between the Sole Global Coordinator (on behalf of the Underwriters) and us on or before Tuesday, July 7, 2020 or such later time as may be agreed between the parties, but in any event, no later than Thursday, July 9, 2020. If, for any reason, the Sole Global Coordinator, on behalf of the Underwriters, and our Company are unable to reach an agreement on the Offer Price by Thursday, July 9, 2020, the Global Offering will not proceed and will lapse immediately. The Offer Price will be not more than HK\$11.60 per Share and is expected to be not less than HK\$9.80 per Share, unless otherwise announced. Investors applying for the Public Offer Shares must pay, on application, the maximum offer price of HK\$11.60 for each Offer Share together with brokerage of 1%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005% subject to refund if the Offer Price is lower than HK\$11.60. The Sole Global Coordinator, on behalf of the Underwriters, may, with the consent of our Company, reduce the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range below that stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Public Offering. In such a case, notices of such reduction will be published in the South China Morning Post (*in English*) and the Hong Kong Economic Times (*in Chinese*) and on the websites of Hong Kong Stock Exchange at www.hkexnews.hk and the Company at www.zulong.com as soon as practicable but in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering.

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

Pursuant to the termination provisions contained in the Hong Kong Underwriting Agreement in respect of the Offer Shares, the Sole Global Coordinator, on behalf of the Hong Kong Underwriters, has the right in certain circumstances, in their absolute discretion, to terminate the obligations of the Hong Kong Underwriters pursuant to the Hong Kong Underwriting Agreement at any time prior to 8:00 a.m. on the Listing Date. Further details of the terms of the termination provisions are set out in the section headed "Underwriting — Grounds for Termination." It is important that you refer to that section for further details.

The Offer Shares have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "U.S. Securities Act") or any state securities law in the United States and may not be offered, sold, pledged or transferred within the United States, except that Offer Shares may be offered, sold or delivered (a) in the United States solely to qualified institutional buyers in reliance on Rule 144A or another exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act or (b) outside the United States in offshore transactions in reliance on Regulation S under the U.S. Securities Act.

June 30, 2020

EXPECTED TIMETABLE⁽¹⁾

The Company will publish an announcement on the website of Hong Kong Stock Exchange at www.hkex.com.hk and our website at www.zulong.com if there is any change in the following expected timetable of the Hong Kong Public Offering.

Latest time for completing electronic applications under

HK eIPO White Form service through one of the below ways⁽²⁾:

(1) the **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) the designated website www.hkeipo.hk 11:30 a.m. on
Tuesday, July 7, 2020

Application lists open⁽³⁾ 11:45 a.m. on
Tuesday, July 7, 2020

Latest time for lodging **WHITE** and **YELLOW**

Application Forms 12:00 noon on
Tuesday, July 7, 2020

Latest time for completing payment of **HK eIPO White Form**

applications by effecting internet banking transfer(s)

or PPS payment transfer(s) 12:00 noon on
Tuesday, July 7, 2020

Latest time for giving **electronic application instructions**

to HKSCC⁽⁴⁾ 12:00 noon on
Tuesday, July 7, 2020

Application lists close⁽³⁾ 12:00 noon on
Tuesday, July 7, 2020

Expected Price Determination Date⁽⁵⁾ Tuesday, July 7, 2020

(1) Announcement of the Offer Price, the level of indications of interest in the International Offering, the level of applications in the Hong Kong Public Offering and basis of allocation of the Hong Kong Offer Shares under the Hong Kong Public Offering to be published in the South China Morning Post (*in English*) and the Hong Kong Economic Times (*in Chinese*) on or before⁽⁸⁾ Tuesday, July 14, 2020

EXPECTED TIMETABLE⁽¹⁾

(2) Results of allocations in the Hong Kong Public Offering (with successful applicants' identification document numbers, where appropriate) to be available through a variety of channels as described in the section headed "How to Apply for Hong Kong Offer Shares — 11. Publication of Results" in this Prospectus⁽⁸⁾ Tuesday, July 14, 2020

(3) A full announcement of the Hong Kong Public Offering containing (1) and (2) above to be published on the website of the Hong Kong Stock Exchange at www.hkexnews.hk and our website at www.zulong.com from⁽⁸⁾ Tuesday, July 14, 2020

Results of allocations in the Hong Kong Public Offering will be available at the "Allotment Result" function in the **IPO App** or at www.tricor.com.hk/ipo/result or www.hkeipo.hk/IPOResult with a "search by ID" function from⁽⁸⁾ Tuesday, July 14, 2020

Dispatch/collection of Share certificates in respect of wholly or partially successful applications pursuant to the Hong Kong Public Offering on or before^{(6) & (8)} Tuesday, July 14, 2020

Dispatch/collection of refund cheques and **HK eIPO White Form** e-Auto Refund payment instructions in respect of wholly or partially successful applications (if applicable) or wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering on or before^{(7) & (8)} Tuesday, July 14, 2020

Dealings in the Shares on the Hong Kong Stock Exchange expected to commence on⁽⁸⁾ Wednesday, July 15, 2020

The application for the Hong Kong Offer Shares will commence on Tuesday, June 30, 2020 through Tuesday, July 7, 2020, being slightly longer than normal market practice of four days. The application monies (including the brokerages, SFC transaction levies and Hong Kong Stock Exchange trading fees) will be held by the receiving bank on behalf of the Company and the refund monies, if any, will be returned to the applicants without interest on Tuesday, July 14, 2020. Investors should be aware that the dealings in the Shares on the Stock Exchange are expected to commence on Wednesday, July 15, 2020.

Notes:

- (1) All times refer to Hong Kong local time, except as otherwise stated.
- (2) You will not be permitted to submit your application through the **IPO App** or the designated website at www.hkeipo.hk after 11:30 a.m. on the last day for lodging applications. If you have already submitted your application and obtained an application reference number from the **IPO App** or the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day of lodging 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 and/or Extreme Conditions in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Tuesday, July 7, 2020, the application lists will not open on that day. See “How to Apply for Hong Kong Offer Shares — Effect of Bad Weather and/or Extreme Conditions on the Opening of the Application Lists” in this Prospectus.
- (4) Applicants who apply for the 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 — Applying by Giving Electronic Application Instructions to HKSCC via CCASS” in this prospectus.
- (5) The Price Determination Date is expected to be on or about Tuesday, July 7, 2020 and, in any event, not later than Thursday, July 9, 2020. If, for any reason, the Offer Price is not agreed by Thursday, July 9, 2020 between us and the Sole Global Coordinator (for itself and on behalf of the Underwriters), the Global Offering will not proceed and will lapse.
- (6) Share certificates for the Hong Kong Offer Shares are expected to be issued on Tuesday, July 14, 2020 but will only become valid certificates of title 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, prior to 8:00 a.m. on the Listing Date, which is expected to be on or around Wednesday, July 15, 2020. Investors who trade Shares on the basis of publicly available allocation details before the receipt of Share certificates or before the Share certificates becoming valid certificates of title do so entirely at their own risk.
- (7) e-Auto Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessfully applications and in respect of successful applications if the Offer Price is less than the price payable on application.
- (8) In case a typhoon warning signal no.8 or above, a black rainstorm warning signal and/or Extreme Conditions announced by the government of Hong Kong in accordance with the revised “Code of Practice in Times of Typhoons and Rainstorms” issued by the Hong Kong Labour Department in June 2019 is/are in force in any days between Tuesday, June 30, 2020 to Wednesday, July 15, 2020, then the day of (i) announcement of results of allocations in the Hong Kong Public Offer; (ii) dispatch of Share certificates and refund cheques/**HK eIPO White Form** e-Auto Refund payment instructions; and (iii) dealings in the Shares on the Hong Kong Stock Exchange may be postponed and an announcement may be made in such event.

The above expected timetable is a summary only. You should refer to the sections headed “Structure and Conditions of the Global Offering” and “How to Apply for Hong Kong Offer Shares” in this Prospectus for details of the structure of the Global Offering, including the conditions of the Global Offering, and the procedures for application for the Hong Kong Offer Shares.

CONTENTS

IMPORTANT NOTICE TO INVESTORS

This prospectus is issued by the Company solely in connection with the Hong Kong Public Offering and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Public Offer Shares offered by this prospectus pursuant to the Hong Kong Public Offering. This prospectus may not be used for the purposes 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 or the distribution of this prospectus in any jurisdiction other than Hong Kong.

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. Our Company has 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 our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners and the Joint Lead Managers, the Underwriters, any of their respective directors, officers, representatives or advisers or any other person involved in the Global Offering.

	<i>Page</i>
EXPECTED TIMETABLE	i
CONTENTS	iv
SUMMARY	1
DEFINITIONS	17
GLOSSARY OF TECHNICAL TERMS	33
FORWARD-LOOKING STATEMENTS	37
RISK FACTORS	38
WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES	78
INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING	81
DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING	85
CORPORATE INFORMATION	89
INDUSTRY OVERVIEW	92
REGULATORY OVERVIEW	104
HISTORY AND REORGANIZATION	137

CONTENTS

	<i>Page</i>
BUSINESS	157
CONTRACTUAL ARRANGEMENTS	222
CONNECTED TRANSACTIONS	238
DIRECTORS AND SENIOR MANAGEMENT	261
RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS	271
RELATIONSHIP WITH THE TENCENT GROUP	274
SUBSTANTIAL SHAREHOLDERS	280
SHARE CAPITAL	282
FINANCIAL INFORMATION	285
CORNERSTONE INVESTORS	332
FUTURE PLANS AND USE OF PROCEEDS	338
UNDERWRITING	342
STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING	353
HOW TO APPLY FOR HONG KONG OFFER SHARES	363
APPENDIX I — ACCOUNTANT’S REPORT	I-1
APPENDIX II — UNAUDITED PRO FORMA FINANCIAL INFORMATION	II-1
APPENDIX III — SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND THE CAYMAN COMPANIES LAW	III-1
APPENDIX IV — STATUTORY AND GENERAL INFORMATION	IV-1
APPENDIX V — DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES AND AVAILABLE FOR INSPECTION	V-1

SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. As it is a summary, it does not contain all the information that may be important to you. You should read the whole prospectus before you decide to invest in the Offer Shares. There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed “Risk Factors” in this prospectus. You should read that section carefully in full before you decide to invest in the Offer Shares.

OVERVIEW

Our mission is to be a top-class gaming company in the world, serving global game players by continuously creating industry-leading games across a diverse array of genres.

We are a leading mobile game developer in China with proven capabilities in developing high-quality mobile games with excellent market reception. We mainly focus on mobile MMORPG development and have established a solid track record. Having gained a thorough understanding of game player demand for midcore to hardcore games with quality content, we aspire to continually roll out blockbuster titles with relentless passion and unwavering dedication. According to Frost & Sullivan, we achieved the following:

- We ranked fifth among all Chinese mobile game developers as measured by total gross billings from self-developed games in mainland China in 2019, with a market share of 1.6%.
- We ranked third among all Chinese mobile game developers as measured by total gross billings from self-developed MMORPGs in mainland China in 2019, with a market share of 5.6%.
- We ranked third among all Chinese mobile game developers as measured by total gross billings from self-developed MMORPGs on iOS App Store and Google Play in markets outside of mainland China from 2017 to 2019, with a market share of 8.1%.
- Four of our games ranked among the top 20 mobile MMORPGs as measured by gross billings in mainland China from 2017 to 2019. Among the four games, *Dragon Raja* (龍族幻想) ranked first among all mobile MMORPGs in terms of average MAUs in mainland China in 2019.

We are a pioneer in China’s mobile game industry focusing on developing high-quality mobile MMORPGs. We have continually led the evolution in industry technology and achieved a number of “firsts” in China’s mobile game industry: we launched one of the first real 3D mobile MMORPG grand strategy wargames, *Loong Craft* (六龍爭霸/六龍御天), and China’s first next-generation real 3D mobile MMORPG powered by Unreal Engine 4, *Dragon Raja* (龍族幻想). We also launched one of the pioneering real 3D turn-based mobile MMORPGs, *Fantasy Zhuxian* (夢幻誅仙). Our games have met with considerable market acceptance. In the first month of launch in 2019, *Dragon Raja* (龍族幻想) generated gross billings of over RMB600.0 million in mainland China, and *Fantasy Zhuxian* (夢幻誅仙), which was launched in 2016, generated gross billings of over RMB3.3 billion as of December 31, 2019.

Our demonstrated development capabilities are among the key factors of our success. With our profound game industry experience spanning the eras of single-player games, client games, web games and mobile games, we have built a strong and cohesive in-house development team and our game development talents accounted for over 85% of our total employees as of the Latest Practicable Date. We have seized advantage in each wave of technological innovation in the industry.

We are also a frontrunner in publishing our in-house developed games in markets outside of mainland China. We publish our games directly through distribution channels and in collaboration with third-party publishers. During the Track Record Period and up to the Latest Practicable Date, we had 14 mobile games with over 60 regional versions in 14 languages available in more than 170 regional markets, such as Hong Kong, Macau, Taiwan, Southeast Asia, South Korea, Japan, Europe and the Americas. *Dragon Raja* (龍族幻想), on the first day we published a new regional version of the game in the Americas and

SUMMARY

Europe in 2020, ranked first among mobile MMORPGs and second among mobile RPGs based on iOS App Store downloads in the United States and sat among the top ten mobile games based on iOS App Store downloads in eight regional markets in Europe. It notched a top 40 entry on the Top Grossing Chart of the iOS App Store in the United States within three months after its launch in the Americas. *Dragon Raja* (龍族幻想) is also the first Chinese mobile MMORPG topping the Top Free Games Charts of both iOS App Store and Google Play in Japan since Chinese game companies began to establish their presence in the Japanese market in 2014.

Our principal lines of business comprise development and licensing business and integrated game publishing and operation business. We primarily license our games to third-party publishers and recognize revenue under the development and licensing segment. See “Business — Our Business Segments — Development and Licensing.” We also publish our games through distribution channels and recognize revenue from such business operations under the integrated game publishing and operation segment. See “Business — Our Business Segments — Integrated Game Publishing and Operation.”

OUR GLOBAL BUSINESS

With a global vision, we actively expanded our business operations in overseas markets and were rapidly able to capitalize on our established brand and mature business model to succeed internationally. The following table sets out our revenue by geographic market for the periods indicated.

	Year ended December 31,					
	2017		2018		2019	
	Amount	% of total	Amount	% of total	Amount	% of total
	<i>RMB million</i>	%	<i>RMB million</i>	%	<i>RMB million</i>	%
Market in Mainland China	1,076.2	82.2	678.9	78.0	723.1	67.8
Markets Outside of Mainland China . .	233.0	17.8	191.2	22.0	344.1	32.2
Hong Kong, Macau and Taiwan . . .	105.5	8.1	88.4	10.2	80.4	7.5
Japan and South Korea	71.3	5.4	69.2	8.0	91.0	8.5
Southeast Asia	47.4	3.6	25.9	3.0	87.9	8.2
Europe and the Americas	8.8	0.7	7.4	0.8	84.8	8.0
Others	—	—	0.3	0.03	—	—
Total	<u>1,309.2</u>	<u>100.0</u>	<u>870.1</u>	<u>100.0</u>	<u>1,067.2</u>	<u>100.0</u>

See “Business — Our Global Business.”

Our Games

Our existing games as of the Latest Practicable Date include:

- *Fantasy Zhuxian* (夢幻誅仙): top 15 on the Top Grossing Games Chart of the iOS App Store in mainland China for four consecutive months following launch in November 2016 and the Ten Most Popular Mobile Games of 2016 China Game Chart;
- *The Castle in the Sky* (天空紀元): Best Mobile Game of 2017 China Game Developers Award, Gamers’ Pick Online Mobile Game of 2017 Golden Plume Award and Best Mobile Game of 2017 by Global Mobile Game Confederation;
- *King of Kings/World of Kings* (萬王之王3D): first on the Top Free Games Chart of the iOS App Store in mainland China on the first day of launch in August 2018 and Best Original Mobile Game of 2018 Golden Plume Award;
- *Dragon Raja* (龍族幻想): first on the Top Free Games Chart of the iOS App Store in mainland China on the first day of launch in July 2019, first on the Top Grossing Games Chart of the iOS App Store in mainland China within the first week of launch, first among mobile MMORPGs and

SUMMARY

second among mobile RPGs based on iOS App Store downloads in the United States on the first day of launch in the Americas, first Chinese mobile MMORPG to top the Top Free Games Charts of both iOS App Store and Google Play in Japan since Chinese game companies began to establish their presence in the Japanese market in 2014, first on the Top Free Games Charts of both iOS App Store and Google Play in Thailand for eight consecutive days after launch and first on the Top Free Games Chart of Google Play in Singapore for nine consecutive days after launch;

- *Love & Sword* (御劍情緣): Most Popular Game Product of 2016 Golden Apple Award and Best Online Role-Playing Game of 2016 KingBonn Award;
- *Power and Honor* (權力與榮耀): Best Original Mobile Game of 2016 Golden Plume Award and top six on the Top Grossing Games Chart of the iOS App Store in mainland China in February 2017;
- *Loong Craft* (六龍爭霸/六龍御天): top two for four consecutive months and top five for six consecutive months on the Top Grossing Games Chart of the iOS App Store in Taiwan following launch in October 2015;
- *Legend of Nine Tails Fox* (青丘狐傳說): Best IP Adaptation of 2016 by Baidu Games and Best Mobile Game Adaptation of Movie and TV Series of 2016 Golden Apple Award;
- *Fantasy Frontier M* (幻想神域): adaptation of the client game *Aura Kingdom* (幻想神域) and excellent reception in mainland China, Japan and South Korea;
- *Naval Creed* (戰艦聯盟): 9.1 rating on and recommendations from TapTap and over 2.0 million downloads on TapTap; and
- *Glorious Eleven* (足球夢工廠): 9.1 rating on TapTap and adoption of the real-time artificial intelligence algorithm.

We expect to launch eight mobile games domestically and globally over the period from 2020 to 2022, covering the genres of MMORPG, SLG and others.

See “Business — Our Games.”

KEY OPERATING METRICS

We measure our games’ performance by six key operating metrics, namely (i) average MAUs, (ii) annual active users, (iii) average MPUs, (iv) annual paying users, (v) ARPU, and (vi) cumulative registered players.

The following table sets out these operating metrics for our mobile games in all markets in which we had presence for the periods indicated.

	Year ended December 31,		
	2017	2018	2019
Average MAUs ⁽¹⁾	4,290,317	3,054,803	3,442,199
Annual active users ⁽¹⁾⁽²⁾	34,963,243	24,866,622	28,205,822
Average MPUs ⁽¹⁾	652,414	403,443	501,533
Annual paying users ⁽¹⁾⁽³⁾	4,872,449	3,214,395	4,122,392
ARPU ⁽¹⁾ (RMB)	<u>25</u>	<u>24</u>	<u>26</u>
	As of December 31,		
	2017	2018	2019
Cumulative registered players ⁽¹⁾	<u>74,060,597</u>	<u>95,576,642</u>	<u>121,159,877</u>

Notes:

- (1) The operating metrics for *Loong Craft* (六龍爭霸/六龍御天) in Europe and Vietnam are unavailable and the revenue contributions from these two regions were relatively small during the Track Record Period.

SUMMARY

- (2) Annual active users are the total number of accounts which access any or all of our mobile games, as applicable, at least once during a calendar year.
- (3) Annual paying users are the total number of accounts which contribute to gross billings for any or all of our mobile games, as applicable, during a calendar year.

The following table sets out the revenue and performance of our five major mobile games in terms of revenue contribution over the Track Record Period for the periods indicated.

	Year ended December 31,		
	2017	2018	2019
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Revenue			
<i>Fantasy Zhuxian (夢幻誅仙)</i>	463.2	173.5	101.2
<i>The Castle in the Sky (天空紀元)</i>	275.5	221.3	92.3
<i>King of Kings/World of Kings (萬王之王3D)</i>	—	184.1	332.2
<i>Dragon Raja (龍族幻想)</i>	—	—	389.3
<i>Love & Sword (御劍情緣)</i>	185.2	66.2	61.4
	Year ended December 31,		
	2017	2018	2019

Average MAUs⁽¹⁾

<i>Fantasy Zhuxian (夢幻誅仙)</i>	1,189,551	431,345	202,237
Market in Mainland China	1,168,078	428,285	202,159
Markets Outside of Mainland China	28,631	3,060	314
<i>The Castle in the Sky (天空紀元)</i>	1,425,825	480,123	192,292
Market in Mainland China	1,286,655	351,963	130,052
Markets Outside of Mainland China	231,951	128,160	62,240
<i>King of Kings/World of Kings (萬王之王3D)</i>	—	2,103,429	742,620
Market in Mainland China	—	1,799,999	287,810
Markets Outside of Mainland China	—	303,430	454,810
<i>Dragon Raja (龍族幻想)</i>	—	—	3,521,180
Market in Mainland China	—	—	3,271,724
Markets Outside of Mainland China	—	—	374,185
<i>Love & Sword (御劍情緣)</i>	1,193,594	384,930	180,619
Market in Mainland China	1,061,549	312,599	160,657
Markets Outside of Mainland China	132,044	72,332	19,962

Annual Active Users⁽²⁾

<i>Fantasy Zhuxian (夢幻誅仙)</i>	8,227,659	2,743,523	1,257,831
<i>The Castle in the Sky (天空紀元)</i>	5,631,571	4,155,139	1,667,766
<i>King of Kings/World of Kings (萬王之王3D)</i>	—	7,892,286	5,831,243
<i>Dragon Raja (龍族幻想)</i>	—	—	15,426,243
<i>Love & Sword (御劍情緣)</i>	10,201,267	3,268,719	1,459,239

SUMMARY

	Year ended December 31,		
	2017	2018	2019
Average MPUs⁽¹⁾			
<i>Fantasy Zhuxian</i> (夢幻誅仙)	269,030	80,905	39,910
Market in Mainland China	267,038	80,638	39,910
Markets Outside of Mainland China	2,656	267	1
<i>The Castle in the Sky</i> (天空紀元)	205,752	49,871	19,265
Market in Mainland China	190,821	37,594	14,279
Markets Outside of Mainland China	24,885	12,277	4,986
<i>King of Kings/World of Kings</i> (萬王之王3D)	—	344,859	71,806
Market in Mainland China	—	308,256	36,510
Markets Outside of Mainland China	—	36,603	35,295
<i>Dragon Raja</i> (龍族幻想)	—	—	639,498
Market in Mainland China	—	—	617,518
Markets Outside of Mainland China	—	—	32,970
<i>Love & Sword</i> (御劍情緣)	147,217	47,845	24,834
Market in Mainland China	137,732	44,922	24,044
Markets Outside of Mainland China	9,485	2,923	790
Annual Paying Users⁽³⁾			
<i>Fantasy Zhuxian</i> (夢幻誅仙)	1,723,197	534,837	238,391
<i>The Castle in the Sky</i> (天空紀元)	831,086	414,819	152,361
<i>King of Kings/World of Kings</i> (萬王之王3D)	—	1,253,727	478,734
<i>Dragon Raja</i> (龍族幻想)	—	—	2,926,807
<i>Love & Sword</i> (御劍情緣)	1,147,645	341,786	156,160
ARPU (RMB)			
<i>Fantasy Zhuxian</i> (夢幻誅仙)	32	34	42
Market in Mainland China	33	33	40
Markets Outside of Mainland China	26	96	4,339 ⁽⁴⁾
<i>The Castle in the Sky</i> (天空紀元)	39	38	40
Market in Mainland China	41	44	36
Markets Outside of Mainland China	19	23	49
<i>King of Kings/World of Kings</i> (萬王之王3D)	—	18	37
Market in Mainland China	—	16	31
Markets Outside of Mainland China	—	24	41
<i>Dragon Raja</i> (龍族幻想)	—	—	18
Market in Mainland China	—	—	18
Markets Outside of Mainland China	—	—	20
<i>Love & Sword</i> (御劍情緣)	13	14	28
Market in Mainland China	11	13	27
Markets Outside of Mainland China	26	19	39

SUMMARY

	Year ended December 31,		
	2017	2018	2019
<i>Cumulative Registered Players</i>			
<i>Fantasy Zhuxian</i> (夢幻誅仙)	15,620,078	17,150,278	17,760,344
<i>The Castle in the Sky</i> (天空紀元)	5,631,639	9,243,338	10,630,081
<i>King of Kings/World of Kings</i> (萬王之王3D)	—	7,841,153	12,903,967
<i>Dragon Raja</i> (龍族幻想)	—	—	15,426,243
<i>Love & Sword</i> (御劍情緣)	<u>17,553,748</u>	<u>20,155,722</u>	<u>21,285,804</u>

Notes:

- (1) For certain games, there is a discrepancy between the game’s average MAUs or average MPUs, as the case may be, in all markets and the sum of its average MAUs or average MPUs in mainland China and those in markets outside of mainland China for a particular year, mainly due to the difference between the duration of game operation in mainland China and that in markets outside of mainland China, resulting in different numbers of months used in calculating average MAUs or average MPUs in all markets and those in markets outside of mainland China.
- (2) Annual active users are the total number of accounts which access a particular mobile game at least once during a calendar year.
- (3) Annual paying users are the total number of accounts which contribute to gross billings for a particular mobile game during a calendar year.
- (4) For 2019, the total MAUs of *Fantasy Zhuxian* (夢幻誅仙) were relatively low as the regional versions of the game had reached their recession stages in markets outside of mainland China, while the revenue generated from such regional versions remained relatively high as we recognized revenue of fixed licensing fees and advance revenue share payments for the game from third-party publishers.

OUR STRENGTHS

We believe the following competitive strengths contribute to our success and position us for continued growth:

- China’s leading mobile game developer with proven capabilities in developing high-quality mobile games with excellent market reception;
- Demonstrated game development capabilities supported by cohesive talent team and leading technology;
- Superior gaming experience attracting numerous engaged game players with high paying potential;
- Diversified and solid long-term strategic partnerships and international business reach;
- Strong IP creation and operational capabilities; and
- Dedicated, professional and experienced management and execution team.

See “Business — Our Strengths.”

SUMMARY

OUR STRATEGIES

We intend to pursue the following strategies to further grow our business:

- Continue to strengthen our development and operational capabilities;
- Maintain leadership in the industry and continue to enrich game offerings;
- Expand in overseas markets and along the industry value chain, scaling up our global businesses;
- Deepen partnerships within the industry ecosystem;
- Continue to enhance our profitability; and
- Pursue strategic investment and acquisition opportunities.

See “Business — Our Strategies.”

OUR CUSTOMERS

Our customers are, typically, third-party publishers from our development and licensing business and game players from our integrated game publishing and operation business. For 2017, 2018 and 2019, revenue from our five largest customers amounted to RMB858.1 million, RMB572.1 million and RMB810.0 million, respectively, accounting for 65.5%, 65.8% and 75.9% of our total revenue for the same periods.

Tencent, one of our five largest customers in 2017, 2018 and 2019, indirectly held 17.51% of the issued share capital of our Company as of the Latest Practicable Date. The transaction terms with customers who hold the issued share capital of our Company are comparable to those with Independent Third-Party customers.

See “Business — Our Customers.”

OUR SUPPLIERS

Our suppliers primarily comprise third-party distribution channels from our integrated game publishing and operation business, IP holders and marketing service providers. For 2017, 2018 and 2019, purchases from our five largest suppliers amounted to RMB222.9 million, RMB110.8 million and RMB164.7 million, respectively, accounting for 42.8%, 37.0% and 50.2% of our total purchase amount for the same periods.

Perfect World, one of our five largest suppliers in 2017, 2018 and 2019, indirectly held 23.10% of the issued share capital of our Company as of the Latest Practicable Date. The transaction terms with the suppliers who hold the issued share capital of our Company are comparable to those with Independent Third-Party suppliers.

See “Business — Our Suppliers.”

SUMMARY

SUMMARY OF HISTORICAL FINANCIAL INFORMATION

The following tables set out summary financial data from our historical financial information for the Track Record Period, extracted from Appendix I to this prospectus. The summary financial data set out below should be read together with, and is qualified in its entirety by reference to, the historical financial information in this prospectus, including the related notes. Our historical financial information was prepared in accordance with IFRS.

Selected Income Statement Data

	Year ended December 31,		
	2017	2018	2019
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Revenue	1,309.2	870.1	1,067.2
Cost of revenue	<u>(273.2)</u>	<u>(173.6)</u>	<u>(177.6)</u>
Gross profit	<u>1,036.0</u>	<u>696.5</u>	<u>889.6</u>
Research and development expenses	(455.5)	(327.6)	(389.2)
Selling and marketing expenses	(230.8)	(93.7)	(114.5)
Administrative expenses	(99.5)	(38.9)	(57.2)
Other income	35.6	17.0	14.1
Other (losses)/gains, net	<u>(4.8)</u>	<u>57.7</u>	<u>24.1</u>
Operating profit	<u>281.0</u>	<u>311.0</u>	<u>366.9</u>
Finance income	7.7	12.7	8.6
Finance costs	<u>(1.0)</u>	<u>(5.8)</u>	<u>(17.9)</u>
Finance income/(costs), net	6.7	6.9	(9.3)
Fair value changes on convertible redeemable preferred shares	<u>(383.6)</u>	<u>(381.3)</u>	<u>(212.5)</u>
(Loss)/Profit before income tax	(95.9)	(63.4)	145.1
Income tax expenses	<u>(63.5)</u>	<u>(12.0)</u>	<u>(24.7)</u>
(Loss)/Profit for the year	<u><u>(159.4)</u></u>	<u><u>(75.4)</u></u>	<u><u>120.4</u></u>
(Loss)/Profit attributable to:			
— Owners of the Company	(159.2)	(74.5)	119.3
— Non-controlling interests	<u>(0.2)</u>	<u>(0.9)</u>	<u>1.1</u>
	<u><u>(159.4)</u></u>	<u><u>(75.4)</u></u>	<u><u>120.4</u></u>
(Loss)/Earnings per share attributable to owners of the Company for the year	N/A	N/A	N/A
Non-IFRS measure ⁽¹⁾ : Adjusted net profit (unaudited) ⁽²⁾	<u>423.2</u>	<u>310.9</u>	<u>354.5</u>

SUMMARY

Notes:

- (1) To supplement our historical financial information which are presented in accordance with IFRS, we also use adjusted net profit as an additional financial measure, which is unaudited in nature and is not required by, or presented in accordance with, IFRS. We believe that this non-IFRS measure facilitates comparisons of operating performance from period to period by eliminating potential impacts of items that our management does not consider to be indicative of our operating performance. We believe that this measure provides useful information to investors and others in understanding and evaluating our results of operations in the same manner as it helps our management. However, our presentation of adjusted net profit may not be comparable to similarly titled measures presented by other companies. The use of this non-IFRS measure has limitations as an analytical tool, and you should not consider it in isolation from, or as substitute for analysis of, our results of operations or financial condition as reported under IFRS.
- (2) We define adjusted net profit as net (loss)/profit for the period adjusted by adding back fair value changes on convertible redeemable preferred shares, share-based compensation expenses, interest expenses accrued from redemption liability and listing expenses. We eliminate the potential impacts of these items that our management does not consider to be indicative of our operating performance, as they are either non-cash items or one-off expenses. In particular, fair value changes on convertible redeemable preferred shares, interest expenses accrued from redemption liability and listing expenses will not recur after the Listing. Fair value changes on convertible redeemable preferred shares will not recur after the Listing as each convertible redeemable preferred shares will be converted into one Share upon the Listing subject to additional Shares to be allotted and issued pursuant to the Capitalization Issue. Interest expenses accrued from redemption liability will not recur after the Listing because the redemption liability is in relation to a put option that will extinguish and cease to have effect upon the Listing.

The following table reconciles our adjusted net profit for the periods presented to the most directly comparable financial measure calculated and presented in accordance with IFRS, which is (loss)/profit for the year:

	Year ended December 31,		
	2017	2018	2019
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Reconciliation of net (loss)/profit to adjusted net profit			
Net (loss)/profit for the period	(159.4)	(75.4)	120.4
Add:			
Fair value changes on convertible redeemable preferred shares	383.6	381.3	212.5
Share-based compensation expenses	199.0	—	—
Interest expenses accrued from redemption liability . .	—	5.0	16.7
Listing expenses	—	—	4.9
Adjusted net profit (unaudited)	<u>423.2</u>	<u>310.9</u>	<u>354.5</u>

SUMMARY

The following table sets out a breakdown of our revenue by business in absolute amounts and as percentages of our revenue for the periods indicated:

	Year ended December 31,					
	2017		2018		2019	
	<i>RMB million</i>	%	<i>RMB million</i>	%	<i>RMB million</i>	%
Development and licensing	911.2	69.6	601.5	69.2	821.5	77.0
Revenue share	859.4	65.6	537.3	61.8	739.8	69.3
Non-refundable fixed licensing fees	51.8	4.0	64.2	7.4	81.7	7.7
Integrated game publishing and operation	383.5	29.3	265.7	30.5	245.7	23.0
Others	14.5	1.1	2.9	0.3	0.0	0.0
Total	<u>1,309.2</u>	<u>100.0</u>	<u>870.1</u>	<u>100.0</u>	<u>1,067.2</u>	<u>100.0</u>

Despite our revenue of RMB1,309.2 million and RMB870.1 million in 2017 and 2018, we had a loss of RMB159.4 million and RMB75.4 million in 2017 and 2018, respectively, primarily due to (i) our one-off shared-based compensation expenses in 2017 and (ii) fair value changes on convertible redeemable preferred shares in both 2017 and 2018.

Capitals with preferred rights (“Preferred Shares”) issued by us to Perfect World and Linzhi Lichuang are redeemable upon occurrence of certain future events. Upon the Listing, each Preferred Share shall be converted into one Share subject to additional Shares to be allotted and issued pursuant to the Capitalization Issue. These instruments are also attached with a conversion option. We designated the Preferred Shares as financial liabilities at fair value through profit or loss. They were initially recognized at fair value. Key valuation assumptions including discount rate, risk-free interest rate, volatility and projections of our future performance specified in Note 25 of Appendix I to this prospectus are used to determine the fair value of Preferred Shares and any changes on these key valuation assumptions will result in fair value changes on convertible redeemable preferred shares. We had fair value changes on convertible redeemable preferred shares of RMB383.6 million, RMB381.3 million and RMB212.5 million in 2017, 2018 and 2019, respectively. For further details, see “History and Reorganization — Pre-IPO Investments” and Note 2.16 and Note 25 of Appendix I to this prospectus.

Our income tax expenses increased significantly from RMB12.0 million in 2018 to RMB24.7 million in 2019, which was in line with the increase in our taxable income.

Selected Balance Sheet Data

	As of December 31,		
	2017	2018	2019
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Total non-current assets	84.6	114.8	122.2
Total current assets	1,632.0	1,433.9	1,781.0
Total assets	1,716.6	1,548.7	1,903.2
Total equity attributable to owners of the Company	353.5	54.0	170.1
Total non-controlling interests	(0.2)	(1.1)	—
Total equity	353.3	52.9	170.1
Total non-current liabilities	941.8	1,225.2	1,466.7
Total current liabilities	421.5	270.6	266.4
Total liabilities	1,363.3	1,495.8	1,733.1
Total equity and liabilities	1,716.6	1,548.7	1,903.2
Net current assets	1,210.5	1,163.3	1,514.6

SUMMARY

Our net assets decreased significantly from RMB353.3 million December 31, 2017 to RMB52.9 million as of December 31, 2018, primarily because we declared and paid dividends of RMB325.0 million to Tianjin Loong's then shareholders in 2018.

Our right-of-use assets increased significantly from RMB14.0 million as of December 31, 2017 to RMB38.7 million as of December 31, 2018, and our lease liabilities increased significantly from RMB8.0 million as of December 31, 2017 to RMB32.8 million as of December 31, 2018, both primarily due to the increased number of leased properties to satisfy our operational needs.

Our trade receivables increased significantly from RMB280.7 million as of December 31, 2018 to RMB545.8 million as of December 31, 2019, which was in line with our revenue growth in 2019, especially because our revenue related to Dragon Raja (龍族幻想) launched in July 2019 was not fully settled before the year end.

We had retained earnings of RMB149.8 million as of December 31, 2017 and we had accumulated losses of RMB152.2 million and RMB597.8 million as of December 31, 2018 and 2019, respectively. Our accumulated losses as of December 31, 2018 and 2019 were primarily due to (i) our fair value changes on convertible redeemable preferred shares in 2018 and 2019; (ii) dividends we declared and paid to Tianjin Loong's then shareholders in 2018; and (iii) increased combined capital transferred from retained earnings due to Tianjin Loong's share reformation in 2019, see Note 22 of Appendix I to this prospectus. As advised by Harney Westwood & Riegels, our Cayman Islands Legal Adviser, despite our accumulated losses as of December 31, 2019, we may declare and pay a dividend at any time, provided that we shall be able to pay our debts as they fall due in the ordinary course of business and to the extent that the payment of dividend is permitted by our articles of association. There is no net asset value test which must be satisfied before a dividend is paid by us. Dividends can be sourced from (i) our realized or unrealized profits; and/or (ii) the proceeds of a fresh issue of new shares; and/or (iii) amounts standing to the credit of our share premium account.

Selected Cash Flow Data

	Year ended December 31,		
	2017	2018	2019
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Net cash generated from operating activities	625.7	135.4	100.6
Net cash (used in)/generated from investing activities .	(621.1)	396.9	58.4
Net cash generated from/(used in) financing activities .	37.8	(341.9)	(24.1)
Net increase in cash and cash equivalents	42.4	190.4	134.9
Cash and cash equivalents at the beginning of the year	371.4	383.6	588.4
Exchange (losses)/gains on cash and cash equivalents .	(30.2)	14.4	5.0
Cash and cash equivalents at the end of the year	383.6	588.4	728.3

Key Financial Ratios

	Year ended December 31,		
	2017	2018	2019
Revenue growth (%)	N/A	(33.5)	22.7
Gross margin ⁽¹⁾ (%)	79.1	80.1	83.4
Net margin ⁽²⁾ (%)	(12.2)	(8.7)	11.3
Non-IFRS measure: adjusted net margin ⁽³⁾ (%)	32.3	35.7	33.2

Notes:

- (1) Gross margin equals gross profit divided by revenues for the period and multiplied by 100%.
- (2) Net margin equals net (loss)/profit divided by revenues for the period and multiplied by 100%.
- (3) Adjusted net margin equals adjusted net profit for the period divided by revenue for the period and multiplied by 100%.

See "Financial Information."

SUMMARY

DIVIDEND

In 2017, 2018 and 2019, Tianjin Loong, our primary operating entity, declared and paid dividends of RMB200.0 million, RMB325.0 million and nil, respectively, to Tianjin Loong's then shareholders. In addition, a dividend distribution plan was approved on February 28, 2020, pursuant to which Tianjin Loong shall distribute a cash dividend of RMB350.0 million to all its then shareholders and we had paid the total amount of such dividend as of April 1, 2020. You should note that the historical dividend distributions are not indicative of our future dividend distribution policy and may not be used as a reference or basis to determine the level of dividends that may be declared or paid by us in the future. Currently we do not have a formal dividend policy or a fixed dividend distribution ratio. Any future declarations and payments of dividends will be at the absolute discretion of our Directors and will depend on our actual and expected results of operations, cash flow and financial position, general business conditions and business strategies, expected working capital requirements and future expansion plans, legal, regulatory and other contractual restrictions, and other factors which our Directors consider relevant. Any declaration and payment as well as the amount of dividend will be subject to our constitutional documents and the Cayman Companies Law. Our Shareholders in a general meeting may approve any declaration of dividends, which must not exceed the amount recommended by our Directors. No dividend shall be declared or payable except out of our profits and reserves lawfully available for distribution.

See "Financial Information — Dividend."

RISK FACTORS

Our business and the Global Offering involve certain risks as set out in the section headed "Risk Factors" in this prospectus. You should read that section in its entirety carefully before you decide to invest in our Shares. Some of the major risks we face include:

The following are some of the major risks that we face:

- We operate in a new and rapidly changing industry, which makes it difficult to evaluate our business and prospects.
- Our new games may not be commercially successful if we fail to adapt our games to new trends and attract new game players.
- We may fail to maintain and grow our game player base or keep game players engaged through our games.
- The market in which we operate is highly competitive. If we are unable to compete effectively against our competitors, our game player base, market share and profitability may be materially and adversely affected.
- A selected few landmark games generated a substantial amount of our revenue each year. If we fail to launch new games with good market reception or extend the lifecycle of our existing top grossing games, we may not be able to maintain or grow our revenue and our business, financial condition and results of operations may be materially and adversely affected.

See "Risk Factors."

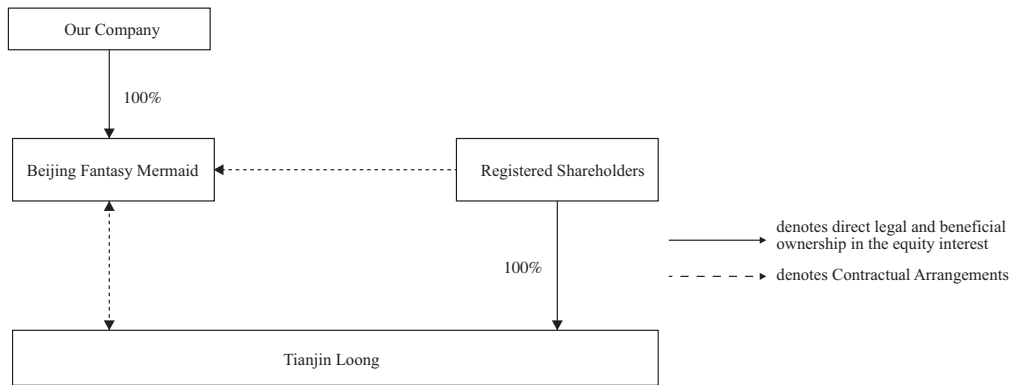
CONTRACTUAL ARRANGEMENTS

As certain aspects of the online games industry in which we operate are subject to foreign investment restrictions and prohibitions under the PRC laws and regulations, we do not directly own any equity interest in our Consolidated Affiliated Entities. In light of the PRC regulatory requirements and with advice from our PRC Legal Adviser, we determined that it was not viable for our Company to hold the equity interests of our Consolidated Affiliated Entities directly. Instead, we decided to adopt the Contractual Arrangements, which are entered into among Tianjin Loong, Beijing Fantasy Mermaid and the Registered Shareholders. The Contractual Arrangements enable us to gain effective control over and receive all the economic benefits generated by the businesses currently operated by our Consolidated Affiliated Entities. Such Contractual Arrangements are commonly adopted by the industries in the PRC

SUMMARY

being subject to foreign investment restrictions and prohibitions. The Contractual Arrangements allow the results of operations and assets and liabilities of our Consolidated Affiliated Entities to be consolidated into our results of operations and assets and liabilities under the IFRS as if they were subsidiaries of our Group.

The diagram below illustrates the relationships among the entities under the Contractual Arrangements (see “Contractual Arrangements” for details):



See “Contractual Arrangements.”

Given that the Contractual Arrangements constitute non-exempt continuing connected transactions of our Company and they are for a term of more than three years, we have applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the requirement of, among others, limiting the term of the Contractual Arrangements to three years or less under Rule 14A.52 of the Listing Rules. See “Connected Transactions — Waiver Applications — Contractual Arrangements.”

OUR CONTROLLING SHAREHOLDERS

As of the Latest Practicable Date, Mr. Li Qing, our founder, chairman, executive Director and chief executive officer, together with three current employees of our Group, namely Mr. Zhang Yu, Mr. Xiang Nan and Mr. Bai Wei (an executive Director), through their respective wholly-owned offshore holding companies, indirectly held 81.96%, 6.94%, 5.55% and 5.55% of the issued share capital of Cresc Chorus, respectively. Cresc Chorus, being an offshore holding company, in turn directly held 46.39% of the issued share capital of our Company after the Reorganization and immediately prior to the completion of the Global Offering. Since Mr. Li Qing, Mr. Zhang Yu, Mr. Xiang Nan and Mr. Bai Wei decided to hold their respective interest in our Company through a common investment holding company, namely Cresc Chorus, they will be deemed as a group of our Controlling Shareholders for the purpose of the Listing Rules.

Immediately following the completion of the Capitalization Issue and the Global Offering (assuming the Over-allotment Option is not exercised), Cresc Chorus, Mr. Li Qing, Mr. Zhang Yu, Mr. Xiang Nan, Mr. Bai Wei and their respective offshore holding companies (namely LuckQ, ZY Technology, XNZL Ltd and Wade Data) will continue to control more than 30% of the voting power at general meetings of our Company and remain as a group of our Controlling Shareholders.

For the background of Mr. Li Qing, see “Directors and Senior Management.”

CONNECTED TRANSACTIONS

We have entered into and are expected to continue with certain transactions after the Listing, which will constitute our non-exempt continuing connected transactions under Chapter 14A of Listing Rules upon Listing. See “Connected Transactions” and “Waiver from Strict Compliance with the Listing Rules.”

SUMMARY

PRE-IPO INVESTMENTS

We introduced Perfect World, Perfect World Interactive, Linzhi Lichuang and Image Frame as our Pre-IPO Investors through several rounds of Pre-IPO Investments since 2015. For details of our Pre-IPO Investments, see “History and Reorganization— Pre-IPO Investments.”

COMPLIANCE

As advised by our PRC Legal Adviser, during the Track Record Period and up to the Latest Practicable Date, there was no breach or violation of PRC laws applicable to us that would, individually or in the aggregate, have a material adverse effect on our business, financial condition or results of operations. We are of the view that, we had complied, in all material respects, with all relevant laws and regulations in the jurisdictions in which we operated during the Track Record Period and up to the Latest Practicable Date.

See “Business — Compliance.”

RECENT DEVELOPMENTS

Our Directors confirmed that the recent outbreak of the coronavirus disease 2019 (COVID-19) did not have any material adverse impact on our business operations, financial performance or working capital as of the date of this prospectus, primarily because: (i) our employees were sufficiently equipped to work from home, especially our research and development personnel, despite the adjustment of workday as required by the PRC government in early 2020 and gradually resumed normal work from the office starting from early April of 2020 as the government lifted the temporary lock-down measures; (ii) we continued to carry on our business in the ordinary course without experiencing any suspension of services, business interruption or supply-chain disruption and had successfully launched three regional versions of *Dragon Raja* (龍族幻想) in Europe, the Americas, Japan and Southeast Asia after the Track Record Period and up to the Latest Practicable Date; (iii) we did not experience any incident where our employees fail to report duty; and (iv) we remain stable relationships with our suppliers and customers and we did not encounter any difficulties in cooperation with them due to the outbreak of COVID-19. To support the resumption of work in office, we have implemented sufficient hygiene measures. Even if in the worst case scenario, assuming that (i) the Group will not generate any revenue from May 2020 due to the suspension of operation; (ii) staff and rental related payments shall continue including rentals of offices; (iii) minimal operating and administrative expenses will be incurred to maintain the Group’s operations at a minimum level; (iv) no dividend will be declared and paid under such situation; (v) there will be no further financing from our Shareholders or banking facilities, except for cash and cash equivalents, term deposits and financial assets at fair value through profit or loss available to the Company as at April 30, 2020 without generating any interest or financial return; (vi) our trade payables and other payables as at April 30, 2020 are paid as scheduled; and (vii) the Group is able to obtain the Listing proceeds from the Global offering at the low end of the price range without taking into consideration the exercise of the Over-allotment Option and carry out its future plans to use 10% of the Listing proceeds as working capital as disclosed in the section headed “Future Plans and Use of Proceeds,” the Directors estimate that the Group will be able to maintain its financial viability for approximately 38 months from June 2020.

During the period from January 1, 2020 to March 31, 2020, we launched a new regional version of *Dragon Raja* (龍族幻想) in Europe and the Americas and a new game, *Glorious Eleven* (足球夢工廠). The average MAUs, average MPUs and ARPU of *Dragon Raja* (龍族幻想) in Europe and the Americas are 1,965,998, 75,345 and RMB11, respectively, for the three months ended March 31, 2020. The average MAUs, average MPUs and ARPU of *Glorious Eleven* (足球夢工廠) are 13,617, 146 and RMB4, respectively, for the same period. The cumulative registered players of *Dragon Raja* (龍族幻想) and *Glorious Eleven* (足球夢工廠) are 3,582,755 and 13,617, respectively, as of March 31, 2020.

A dividend distribution plan was approved on February 28, 2020, pursuant to which Tianjin Loong shall distribute a cash dividend of RMB350.0 million to all its then shareholders, namely Beijing Loong, Perfect World, Linzhi Lichuang, Ningbo Longren and Ningbo Qiance, in proportion to their then

SUMMARY

shareholding in Tianjin Loong, which was 56.34%, 18.05%, 12.35%, 8.27% and 5.00%, respectively. As of April 1, 2020, we had paid the total amount of such dividend with our cash and cash equivalents. You should note that our historical dividend distributions are not indicative of our future dividend distribution policy and may not be used as a reference or basis to determine the level of dividends that may be declared or paid by us in the future. See “Financial Information — Dividend.”

The Internet Cultural Operation License owned by Huai’an Loong, one of our Consolidated Affiliated Entities, expired on May 10, 2020. Huai’an Loong currently operates its business without the Internet Cultural Operation License. For details in relation to the renewal of our Internet Cultural Operation Licenses, see “Regulatory Overview — Regulatory Authorities.”

Our Directors confirm that, up to the date of this prospectus, there has been no material adverse change in our financial, operational or trading position or prospects since December 31, 2019, being the end date of the periods reported on in Appendix I to this prospectus, and there has been no event since December 31, 2019 that would materially affect the information as set out in Appendix I to this prospectus.

We may experience a decrease in net profit in 2020 as compared to 2019 due to an estimated increase in fair value changes on convertible redeemable preferred shares and share-based compensation expenses.

APPLICATION FOR THE OFFER SHARES

The application for the Hong Kong Offer Shares will commence on Tuesday, June 30, 2020 through Tuesday, July 7, 2020, being slightly longer than normal market practice of four days. The application monies (including the brokerages, SFC transaction levies and Stock Exchange trading fees) will be held by the receiving bank on behalf of the Company and the refund monies, if any, will be returned to the applicants without interest on Tuesday, July 14, 2020. Investors should be aware that the dealings in the Shares on the Stock Exchange are expected to commence on Wednesday, July 15, 2020.

OFFERING STATISTICS

All statistics in the following table are based on the assumptions that (i) the Global Offering has been completed and 187,400,000 Shares are issued pursuant to the Global Offering; (ii) the Over-allotment Option is not exercised.

	Based on an Offer Price of HK\$9.80 ⁽¹⁾	Based on an Offer Price of HK\$11.60 ⁽²⁾
Market capitalization of our Shares	HK\$7,716.52 million	HK\$9,133.84 million
Unaudited pro forma adjusted net tangible assets per Share ⁽³⁾	HK\$4.58 (RMB4.19)	HK\$5.02 (RMB4.59)

Notes:

- (1) The calculation of market capitalization is based on the assumption that 787,400,000 Shares are issued and outstanding immediately following the completion of the Global Offering based on an Offer Price of HK\$9.80 per Share.
- (2) The calculation of market capitalization is based on the assumption that 787,400,000 Shares are issued and outstanding immediately following the completion of the Global Offering based on an Offer Price of HK\$11.60 per Share.
- (3) The unaudited pro forma adjusted net tangible assets per Share is calculated after making the adjustments referred to in Appendix II “Unaudited Pro Forma Financial Information” and on the basis that 746,000,002 Shares (excluding Series C-2 Preferred Shares issued after December 31, 2019 and the unvested shares under the RSU Scheme) are issued and outstanding based on the Offer Price of HK\$9.80 or HK\$11.60 per Share, respectively, as if the Global Offering had been completed as of December 31, 2019. After December 31, 2019, Tianjin Loong has distributed a cash dividend of RMB350 million. Also, the Company has issued Series C-2 Preferred Shares. The unaudited pro forma adjusted net tangible assets per Share would have been RMB3.79 (HK\$4.14) and RMB4.18 (HK\$4.57) per share based on the Offer Price of HK\$9.80 and HK\$11.60 respectively assuming 758,000,000 shares (excluding the unvested shares under the RSU Scheme) were in issue and taking into account the effect of such dividend and issuance of Series C-2 Preferred Shares.

SUMMARY

LISTING EXPENSES

Listing expenses represent professional fees, underwriting commissions and other fees incurred in connection with the Global Offering. We expect to incur listing expenses of approximately RMB127.0 million (or HK\$138.9 million) (based on the mid-point of the indicative Offer Price range and assuming the Over-allotment Option is not exercised) and such listing expenses are expected to account for approximately 7.44% of our net proceeds from the Global Offering. In 2019, we incurred listing expenses of RMB6.2 million, out of which RMB4.9 million was expensed and RMB1.3 million was recorded as prepayments and will be capitalized upon completion of the Global Offering. We expect to further incur approximately RMB120.8 million of listing expenses after December 31, 2019 upon the completion of the Global Offering, of which approximately RMB36.5 million is expected to be expensed and the remaining approximately RMB84.3 million is directly attributable to our issue of Offer Shares and will be capitalized. Our Directors do not expect such expenses to materially impact our results of operations in 2020.

USE OF PROCEEDS

Assuming an Offer Price of HK\$10.70 per Share (being the mid-point of the Offer Price Range stated in this prospectus) and assuming that the Over-allotment Option is not exercised, we currently intend to use our proceeds from the Global Offering as follows:

- Approximately 40% of the net proceeds, or HK\$746.5 million, for enhancing our development capabilities and technology and expanding our game portfolio;
- Approximately 20% of the net proceeds, or HK\$373.3 million, for expanding our game publishing and operation business, particularly in markets outside of mainland China;
- Approximately 20% of the net proceeds, or HK\$373.3 million, for funding strategic acquisition of and investment in upstream and downstream businesses along the industry value chain and investment in investment funds focusing on pan-entertainment or technology, media, and telecom;
- Approximately 10% of the net proceeds, or HK\$186.6 million, for expanding our IP reserve and enriching our content offerings; and
- Approximately 10% of the net proceeds, or HK\$186.6 million, for working capital and general corporate uses.

See “Future Plans and Use of Proceeds.”

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following terms shall have the meanings set out below.

“2019 Catalogue”	The Catalogue of Industries in which Foreign Investment is Encouraged (2019) (鼓勵外商投資產業目錄(2019))
“2019 Negative List”	Special Administrative Measures (Negative List) for the Access of Foreign Investment (2019) (外商投資准入特別管理措施(負面清單) (2019))
“2019 FIL”	Foreign Investment Law (《中華人民共和國外商投資法》) adopted by the second session of the 13th National People’s Congress on March 15, 2019 and became effective on January 1, 2020
“37 Interactive Entertainment”	Wuhu Shunrong Sanqi Interactive Entertainment Network Technology Co., Ltd. (蕪湖順榮三七互娛網絡科技股份有限公司), a company established under the laws of the PRC with limited liability
“Accountant’s Report”	the report from the Reporting Accountant the text of which is set out in Appendix I of this prospectus
“affiliate(s)”	any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person
“Anti-addiction Notice”	Notice Regarding the Implementation of Anti-addiction System on Online Games in Protecting the Physical and Mental Health of Minors (關於保護未成年人身心健康實施網絡遊戲防沉迷系統的通知)
“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
“Archosaur Entertainment”	Archosaur Entertainment Limited, a BVI business company incorporated under the laws of the BVI with limited liability on January 7, 2020 and is wholly-owned by our Company
“Articles” or “Articles of Association”	the articles of association of our Company (as amended from time to time), conditionally adopted on June 24, 2020 with effect from the Listing Date, a summary of which is set out in Appendix III to this prospectus
“associate(s)”	has the meaning ascribed to it in the Listing Rules

DEFINITIONS

“Beijing Fantasy Mermaid”	Beijing Fantasy Mermaid Technology Limited* (北京幻想美人魚科技有限公司), a company established under the laws of the PRC with limited liability on September 9, 2014, which is wholly-owned by Famous Game, our subsidiary and a WFOE
“Beijing Loong”	Beijing Loong Game Technology Limited* (北京祖龍遊科技有限公司), a company established under the laws of the PRC with limited liability on September 9, 2014 and is one of the Registered Shareholders
“Board” or “Board of Directors”	the board of directors of our Company
“business day”	any day (other than a Saturday, Sunday or public holiday) on which banks in Hong Kong are generally open for business
“BVI”	the British Virgin Islands
“Capitalization Issue”	the issue 497,959,184 Shares to be made upon the capitalisation of part of the sum standing to the credit of the share premium account of our Company referred to in the section headed “Statutory and General Information — A. Further information about our Group — 4. Resolutions in writing of the shareholders of our Company passed on June 24, 2020” in Appendix IV to this prospectus
“Cayman Companies Law” or “Companies Law”	the Companies Law (as revised) of the Cayman Islands, as amended or 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 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

“Chinese Entertainment”	Chinese Entertainment Tianjin Limited (天津唐人影視股份有限公司), a company established under the laws of the PRC with limited liability
“Chengdu Fantasy Mermaid”	Chengdu Fantasy Mermaid Technology Limited* (成都幻想美人魚科技有限公司), a company established under the laws of the PRC with limited liability on December 10, 2019, which is wholly-owned by Beijing Fantasy Mermaid, our subsidiary
“China,” “mainland China” or “the PRC”	the People’s Republic of China excluding, for the purpose of this prospectus, Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Circular 13”	Circular of Further Simplifying and Improving the Direct Investment-related Foreign Exchange Administration Policies (關於進一步簡化和改進直接投資外匯管理政策的通知)
“Circular 37”	Circular on Relevant Issues concerning Foreign Exchange Administration of the Overseas Investment and Financing and Return Investment Conducted by Domestic Residents through Overseas Special Purpose Vehicle (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)
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Company” or “our Company” or “the Company”	Archosaur Games Inc. 祖龙娱乐有限公司, an exempted company incorporated under the laws of the Cayman Islands with limited liability on January 2, 2020
“connected person(s)”	has the meaning ascribed to it in the Listing Rules
“connected transaction(s)”	has the meaning ascribed to it in the Listing Rules
“Consolidated Affiliated Entities”	the entities we control through the Contractual Arrangements, namely Tianjin Loong and its subsidiaries established from time to time. See “History and Reorganization— Our Corporate History”
“Contractual Arrangements”	the series of contractual arrangements entered into among Tianjin Loong, Beijing Fantasy Mermaid and the Registered Shareholders. See “Contractual Arrangements”

DEFINITIONS

“Controlling Shareholder(s)”	has the meaning ascribed to it in the Listing Rules and in the context of this prospectus, refers to the controlling shareholders of our Company, being Cresc Chorus, Mr. Li Qing, LuckQ, Mr. Zhang Yu, ZY Technology, Mr. Xiang Nan, XNZL Ltd, Mr. Bai Wei and Wade Data
“Cresc Chorus”	Cresc Chorus Limited, a BVI business company incorporated under the laws of the BVI with limited liability on December 12, 2019 and is ultimately held as to 81.96% by Mr. Li Qing, 6.94% by Mr. Zhang Yu, 5.55% by Mr. Xiang Nan and 5.55% by Mr. Bai Wei, each through their respective offshore holding companies, and one of our Controlling Shareholders
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會)
“Director(s)”	director(s) of our Company
“Efun”	Guangzhou Efun Internet Technology Co., Ltd* (廣州易幻網絡科技有限公司), a company established under the laws of the PRC with limited liability, and/or any or all of its affiliates and subsidiaries
“EIT”	enterprise income tax
“EIT Law”	the Law of the PRC on Enterprise Income Tax (中華人民共和國企業所得稅法)
“Equity Pledge Agreement”	the equity pledge agreement dated March 10, 2020 and entered into among Tianjin Loong, Beijing Fantasy Mermaid and the Registered Shareholders
“Exclusive Business Cooperation Agreement”	the exclusive business cooperation agreement dated March 10, 2020 and entered into between Tianjin Loong and Beijing Fantasy Mermaid
“Exclusive Option Agreement”	the exclusive option agreement dated March 10, 2020 and entered into among Tianjin Loong, Beijing Fantasy Mermaid and the Registered Shareholders
“Extreme Conditions”	extreme conditions caused by a super typhoon as announced by the government of Hong Kong
“Famous Game”	Famous Game Company Limited (名遊有限公司), a limited company incorporated under the laws of Hong Kong on August 5, 2019 and wholly-owned by Archosaur Entertainment

DEFINITIONS

“Famous Heart”	Famous Heart Limited (名心有限公司), a limited company incorporated under the laws of Hong Kong on October 23, 2014 and wholly-owned by Archosaur Entertainment
“Frost & Sullivan”	Frost & Sullivan International Limited, a market research and consulting company and Independent Third Party, which prepared the Frost & Sullivan Report
“Frost & Sullivan Report”	the industry report prepared by Frost & Sullivan and commissioned by our Company regarding China’s mobile game market and related markets for the period from 2016 to 2024, as referred to in the section headed “Industry Overview” in this prospectus
“GAPP”	The General Administration of Press and Publication (新聞出版總署)
“G-MEI”	G-MEI Network Technology Co., Limited* (智美網絡科技有限公司), a BVI business company established under the laws of the British Virgin Islands with limited liability
“Global Offering”	the Hong Kong Public Offering and the International Offering
“GREEN Application Form(s)”	the application form(s) to be completed by the HK eIPO White Form Service Provider designated by our Company
“Green Particle”	Green Particle Limited, a BVI business company incorporated under the laws of the BVI with limited liability on December 12, 2019, and is ultimately held as to 20% by Mr. Zhao Tongtong, 20% by Mr. Xiao Zhou, 12% by Mr. Li Yi, 12% by Mr. Liu Wenwei, 12% by Mr. Wu Shenghe, 12% by Mr. Wang Le and 12% by Mr. Wang Yuanming, each through their respective offshore holding company
“Group,” “our Group,” “the Group,” “we,” “us,” or “our”	our Company, our subsidiaries and our Consolidated Affiliated Entities, or, where the context so requires, in respect of the period prior to our Company becoming the holding company of our present subsidiaries and Consolidated Affiliated Entities, as if such subsidiaries and Consolidated Affiliated Entities were subsidiaries of our Company at the relevant time
“Hai’nan Loong”	Hai’nan Loong Technology Co., Ltd* (海南祖龍科技有限公司), a company established under the laws of the PRC with limited liability on April 14, 2020 and wholly-owned by Tianjin Loong, and by virtue of the Contractual Arrangements, accounted for as our subsidiary

DEFINITIONS

“ HK eIPO White Form ”	the application for Hong Kong Offer Shares to be issued in the applicant’s own name by submitting applications online through the IPO App or the designated website at www.hkeipo.hk
“ HK eIPO White Form Service Provider ”	the HK eIPO White Form Service Provider designated by our Company, as specified in the IPO App or on the designated website at www.hkeipo.hk
“ HKSCC ”	Hong Kong Securities Clearing Company 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 dollars, ” “ HK dollars, ” “ HKD ” or “ HK\$ ”	Hong Kong dollars, the lawful currency of Hong Kong
“ Hong Kong Offer Shares ”	the 18,740,000 Shares being initially offered for subscription in the Hong Kong Public Offering, subject to reallocation
“ Hong Kong Public Offering ”	the offer of the Hong Kong Offer Shares for subscription by the public in Hong Kong
“ Hong Kong Share Registrar ”	Tricor Investor Services Limited
“ Hong Kong Stock Exchange ”	The Stock Exchange of Hong Kong Limited
“ Hong Kong Underwriters ”	the underwriters of the Hong Kong Public Offering listed in the section headed “Underwriting — Hong Kong Underwriters” in this prospectus
“ Hong Kong Underwriting Agreement ”	the underwriting agreement dated June 29, 2020, relating to the Hong Kong Public Offering, entered into by, among others, the Sole Global Coordinator, the Hong Kong Underwriters and our Company, as further described in the section headed “Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering” in this prospectus
“ Horgos Loong ”	Horgos Loong Technology Development Co., Ltd* (霍爾果斯祖龍科技發展有限公司), a company established under the laws of the PRC with limited liability on March 29, 2017, which was wholly-owned by Tianjin Loong and its de-registration was completed on April 1, 2020

DEFINITIONS

“Huai’an Loong”	Huai’an Loong Technology Co., Ltd* (淮安祖龍科技有限公司), a company established under the laws of the PRC with limited liability on August 19, 2016 and wholly-owned by Tianjin Loong, and by virtue of the Contractual Arrangements, accounted for as our subsidiary
“ICP License”	the value-added telecommunications business operating license (增值電信業務經營許可證) for internet information service
“IFRS”	International Financial Reporting Standards
“Image Frame”	Image Frame Investment (HK) Limited, a company incorporated under the laws of Hong Kong with limited liability, one of the Offshore Pre-IPO Investors, a substantial shareholder of our Company
“Implementation Programme on Prevention of Juveniles Myopia”	Implementation Programme on Comprehensive Prevention and Control of Juveniles Myopia (綜合防控兒童青少年近視實施方案)
“Independent Third Party(ies)”	an individual(s) or a company(ies) who or which is/are not connected (within the meaning of the Listing Rules) with any directors, chief executive or substantial shareholders (within the meaning of the Listing Rules) of us, our subsidiaries, our Consolidated Affiliated Entities or any of their respective associates
“International Offer Shares”	the 168,660,000 Shares being initially offered by us for subscription or purchase under the International Offering together with, where relevant, any additional Shares which may be issued by us pursuant to the exercise of the Over-allotment Option, subject to reallocation
“International Offering”	the conditional placing of the International Offer Shares to institutional, professional and other investors as set out in the section headed “Structure and Conditions of the Global Offering” in this prospectus
“International Sanctions”	Sanctions-related laws and regulations issued by the United States, the European Union, the United Nations or Australia
“International Underwriters”	the underwriters of the International Offering

DEFINITIONS

“International Underwriting Agreement”	the international underwriting agreement relating to the International Offering, which is expected to be entered into by, among others, our Company, the Sole Global Coordinator and the International Underwriters on the Price Determination Date as further described in the section headed “Underwriting — Underwriting Arrangements and Expenses — The International Offering”
“Internet Cultural Operation License”	the internet cultural operation license (網絡文化經營許可證) for operating internet cultural business
“Internet Publishing Service License”	the internet publishing service license (網絡出版服務許可證) for publishing on the internet
“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
“Joint Bookrunners”	China International Capital Corporation Hong Kong Securities Limited, Haitong International Securities Company Limited and CMB International Capital Limited
“Joint Lead Managers”	China International Capital Corporation Hong Kong Securities Limited, Haitong International Securities Company Limited, CMB International Capital Limited, CNI Securities Group Limited and Bradbury Securities Limited
“Latest Practicable Date”	June 21, 2020, being the latest practicable date prior to the printing of this prospectus for the purpose of ascertaining certain information contained in this prospectus
“Linzhi Lichuang”	Linzhi Lichuang Information Technology Co., Ltd* (林芝利創信息技術有限公司), a company established under the laws of the PRC with limited liability and is one of the Registered Shareholders
“Listing”	the listing of the Shares on the Main Board of the Hong Kong Stock Exchange
“Listing Committee”	the listing committee of the Hong Kong Stock Exchange
“Listing Date”	the date, expected to be on or about Wednesday, July 15, 2020 on which the Shares are listed on the Hong Kong Stock Exchange and from which dealings in the Shares are permitted to commence on the Hong Kong Stock Exchange

DEFINITIONS

“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
“LuckQ”	LuckQ Technology Limited, a BVI business company incorporated under the laws of the BVI with limited liability on November 29, 2019 and wholly owned by Mr. Li Qing, and one of our Controlling Shareholders
“M&A Rules”	the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (關於外國投資者併購境內企業的規定)
“Main Board”	the stock exchange (excluding the option market) operated by the Hong Kong Stock Exchange which is independent from and operates in parallel with the Growth Enterprise Market of the Hong Kong Stock Exchange
“Memorandum” or “Memorandum of Association”	the memorandum of association of our Company, conditionally adopted on June 24, 2020 with effect from the Listing Date, as amended from time to time
“MIIT” or “MII”	Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部), and its predecessor was known as the Ministry of Information Industry of the PRC (中華人民共和國信息產業部)
“MOC” or “MOCT”	Ministry of Culture of the PRC (中華人民共和國文化部) (since March 2018 known as the Ministry of Culture and Tourism of the PRC (中華人民共和國文化和旅游部))
“MOE”	Ministry of Education of the PRC (中華人民共和國教育部)
“MOF”	Ministry of Finance of the PRC (中華人民共和國財政部)
“MOFCOM”	Ministry of Commerce of the PRC (中華人民共和國商務部) or its predecessor, the Ministry of Foreign Trade and Economic Cooperation of the PRC (中華人民共和國對外經濟貿易部)
“MPS”	Ministry of Public Security of the PRC (中華人民共和國公安部)
“NAPP”	The National Administration of Press and Publication (National Copyright Bureau) under the Propaganda Department of the Central Committee of the CPC (中國共產黨中央委員會宣傳部(國家新聞出版署)), the authority in charge of online game registration and publication number issuance since March 2018

DEFINITIONS

“NCA”	National Copyright Administration of the PRC (中華人民共和國國家版權局)
“NDRC”	National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
“Ningbo Longren”	Ningbo Long Ren Enterprise Management Partnership (Limited Partnership)* (寧波龍仁企業管理合夥企業(有限合夥)), a limited partnership enterprise established under the laws of the PRC on December 14, 2015 and is one of the Registered Shareholders
“Ningbo Qiance”	Ningbo Meishan Bonded Port Qian Ce Enterprise Management Partnership (Limited Partnership)* (寧波梅山保稅港區千策企業管理合夥企業(有限合夥)), a limited partnership enterprise established under the laws of the PRC on November 28, 2019 and is one of the Registered Shareholders
“NRTA”	National Radio and Television Administration of the PRC (國家廣播電視總局)
“Offer Price”	the final offer price per Offer Share (exclusive of brokerage of 1.0%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%)
“Offer Share(s)”	the Hong Kong Offer Shares and the International Offer Shares together with, where relevant, any additional Shares which may be issued by us pursuant to the exercise of the Over-allotment Option
“Offshore Pre-IPO Investors”	Perfect World Interactive and Image Frame
“Offshore Share Subscription Agreement”	the share subscription agreement dated March 4, 2020 and entered into by, among others, our Company, Perfect World Interactive and Image Frame, in relation to the subscription of certain Preferred Shares under the Pre-IPO Investments
“Offshore Shareholders Agreement”	the shareholders agreement dated March 4, 2020 and entered into by, among others, our Company, Perfect World Interactive and Image Frame, in relation to, among others, the rights of shareholders of our Company under the Pre-IPO Investments
“Online Game Measures”	the Interim Measures for the Administration of Online Games (網絡遊戲管理暫行辦法)

DEFINITIONS

“Onshore Shareholders Agreement”	the shareholders agreement dated July 30, 2018 (as supplemented by a supplemental agreement dated January 1, 2019) and entered into by, among others, Tianjin Loong, Perfect World and Linzhi Lichuang in relation to, among others, the rights of shareholders of Tianjin Loong under the Pre-IPO Investments, which was terminated on March 10, 2020
“Onshore Pre-IPO Investors”	Perfect World and Linzhi Lichuang
“Over-allotment Option”	the option expected to be granted by us to the International Underwriters, exercisable by the Sole Global Coordinator (on behalf of the International Underwriters), pursuant to which we may be required to allot and issue up to an aggregate of 28,110,000 Shares at the Offer Price to cover over-allocations in the International Offering, if any
“PBOC”	People’s Bank of China (中國人民銀行)
“Perfect World”	完美世界遊戲有限責任公司, a company established under the laws of the PRC with limited liability on November 14, 2008, a subsidiary of Perfect World Holding, and is one of the Registered Shareholders
“Perfect World Group”	Perfect World Holding and/or its respective affiliate(s) and/or subsidiaries
“Perfect World Holding”	Perfect World Co., Ltd.* (完美世界股份有限公司), a company established in the PRC, the shares of which are listed on the Shenzhen Stock exchange (stock code: 002624)
“Perfect World Interactive”	Perfect World Interactive Entertainment Co., Ltd., an exempted company incorporated under the laws of the Cayman Islands with limited liability on March 2, 2009, one of the Offshore Pre-IPO Investors and a substantial shareholder of our Company
“Powers of Attorney”	the powers of attorney entered into among Beijing Fantasy Mermaid and each of the Registered Shareholders dated March 10, 2020
“PRC Operating Entities”	Beijing Fantasy Mermaid and Chengdu Fantasy Mermaid. See “History and Reorganization — Our Corporate History”
“Pre-IPO Investments”	the pre-IPO investments by the Pre-IPO Investors as described in the paragraph headed “History and Reorganization — Pre-IPO Investments” in this prospectus
“Pre-IPO Investors”	the Onshore Pre-IPO Investors and the Offshore Pre-IPO Investors

DEFINITIONS

“Preferred Shares”	the Series A Preferred Shares, the Series B Preferred Shares, the Series C-1 Preferred Shares and the Series C-2 Preferred Shares
“Price Determination Date”	the date, expected to be on or about July 7, 2020, on which the Offer Price will be determined and, in any event, not later than July 9, 2020
“PRC Government” or “State”	the central government of the PRC, including all political subdivisions (including provincial, municipal and other regional or local government entities) and its organs or, as the context requires, any of them
“PRC Legal Adviser”	Tian Yuan Law Firm, our legal adviser as to PRC laws
“Registered Shareholders”	Beijing Loong, Ningbo Longren, Ningbo Qiance, Perfect World and Linzhi Lichuang, as the registered shareholders of Tianjin Loong
“Regulation S”	Regulation S under the U.S. Securities Act
“Reorganization”	the reorganization of our Group conducted in preparation for the Listing, details of which are set out in the section headed “History and Reorganization” in this prospectus
“Reporting Accountant”	PricewaterhouseCoopers
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“RSU(s)”	restricted share unit(s) under the RSU Scheme
“RSU Scheme”	the restricted share unit scheme of our Company approved and adopted by our Board on April 1, 2020, the principal terms of which are set out in the section headed “Appendix IV — Statutory and General Information — D. RSU Scheme”
“SAFE”	State Administration of Foreign Exchange of the PRC (中華人民共和國外匯管理局)
“SAIC”	State Administration for Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局) (since March 2018 known as the State Administration for Market Regulation (國家市場監督管理總局))
“Sanctioned Person(s)”	certain person(s) and identity(ies) listed on the Specially Designated Nationals and Blocked Persons List of the Office of Foreign Assets Control of the U.S. Department of the Treasury or other restricted parties lists maintained by the United States, the European Union, the United Nations or Australia

DEFINITIONS

“SAPPRFT”	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 GAPP, the SARFT and since March 2018 was reformed and now known as the NRTA, while the responsibility of the SAPPRFT for the approval of online game registrations and issuance of game publication numbers has been transferred to the NAPP
“SARFT”	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)
“SAT”	State Administration of Taxation of the PRC (中華人民共和國國家稅務總局)
“Series A Preferred Share(s)”	the series A convertible preferred share(s) of our Company with par value US\$0.00001 per share, which are currently in issue and held by Perfect World Interactive pursuant to the subscription under the Offshore Share Subscription Agreement
“Series B Preferred Share(s)”	the series B convertible preferred share(s) of our Company with par value US\$0.00001 per share, which are currently in issue and held by Image Frame pursuant to the subscription under the Offshore Share Subscription Agreement
“Series C-1 Preferred Share(s)”	the series C-1 convertible preferred share(s) of our Company with par value US\$0.00001 per share, which are currently in issue and held by Perfect World Interactive and Image Frame pursuant to the sale and purchase under the share purchase agreements entered into between Perfect World Interactive and Cresc Chorus, and between, among others, Image Frame and Cresc Chorus as part of the Pre-IPO Investments
“Series C-2 Preferred Share(s)”	the series C-2 convertible preferred share(s) of our Company with par value US\$0.00001 per share, which are currently in issue and held by Perfect World Interactive and Image Frame pursuant to the subscription under the Offshore Share Subscription Agreement
“SFC”	Securities and Futures Commission of Hong Kong
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time
“Share(s)”	ordinary share(s) in the capital of our Company with nominal value of US\$0.00001 each
“Shareholder(s)”	holder(s) of the Shares

DEFINITIONS

“Sixjoy”	Sixjoy Hong Kong Limited, a company incorporated under the laws of Hong Kong with limited liability and a wholly-owned subsidiary of Tencent
“Smooth Ebony”	Smooth Ebony Limited, a BVI business company incorporated under the laws of the BVI with limited liability on December 12, 2019, and is ultimately held as to 20.00% by Mr. Zhao Tongtong, 20.00% by Mr. Liu Bing, 15.00% by Mr. Liu Wenwei, 15.00% by Mr. Wu Shenghe, 12.00% by Mr. Xiao Zhou, 12.00% by Mr. Wang Le and 6.00% by Mr. Wang Yuanming, each through his respective offshore holding company. It serves as the settlor for the Shares on trust under the RSU Scheme
“Sole Global Coordinator”	China International Capital Corporation Hong Kong Securities Limited
“Sole Sponsor”	China International Capital Corporation Hong Kong Securities Limited
“South Korea”	Republic of Korea
“Stabilizing Manager”	China International Capital Corporation Hong Kong Securities Limited
“State Council”	State Council of the PRC (中華人民共和國國務院)
“Stock Borrowing Agreement”	the stock borrowing agreement expected to be entered into on or about the Price Determination Date between the Stabilizing Manager (or its affiliates acting on its behalf) and Cresc Chorus, pursuant to which Cresc Chorus will agree to lend up to 28,110,000 Shares to the Stabilizing Manager on terms set forth therein
“subsidiaries”	has the meaning ascribed to it in section 15 of the Companies Ordinance
“substantial shareholder(s)”	has the meaning ascribed to it in the Listing Rules
“Takeovers Code”	The Codes on Takeovers and Mergers and Share Buy-backs
“Tencent”	Tencent Holdings Limited, one of our substantial Shareholders, an exempted company with limited liability incorporated under the laws of the Cayman Islands, the shares of which are listed on the Main Board of the Hong Kong Stock Exchange (stock code: 700) and/or its subsidiaries, as the case may be

DEFINITIONS

“Tencent Cloud”	Tencent Cloud Computing (Beijing) Company Limited* (騰訊雲計算(北京)有限責任公司), a company established in the PRC and a wholly-owned subsidiary of Tencent
“Tencent Computer”	Shenzhen Tencent Computer Systems Company Limited* (深圳市騰訊計算機系統有限公司), a company established in the PRC and a wholly-owned subsidiary of Tencent
“Tencent Group”	Tencent and its respective affiliate(s) and/or subsidiaries
“Tianjin Loong”	Tianjin Loong Technology Co., Ltd* (祖龍(天津)科技股份有限公司, formerly known as “祖龍(天津)科技有限公司”), a company established under the laws of the PRC with limited liability on April 15, 2015, and the holding company of Huai’an Loong and Hai’nan Loong, and by virtue of the Contractual Arrangements, accounted for as our subsidiary
“Track Record Period”	the period comprising three financial years of our Company ended December 31, 2017, 2018 and 2019
“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“U.S. dollars,” “USD” or “US\$”	U.S. dollars, the lawful currency of the United States of America
“U.S.” or “United States”	the United States of America
“U.S. Securities Act”	the United States Securities Act of 1933, as amended from time to time, and the rules and regulations promulgated thereunder
“VAT”	value added tax
“VIE” or “VIEs”	variable interest entity or variable interest entities
“Wade Data”	Wade Data Services Limited, a BVI business company incorporated under the laws of the BVI with limited liability on December 2, 2019 and wholly owned by Mr. Bai Wei, and one of our Controlling Shareholders
“WFOE”	wholly foreign owned entity
“ 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 applicants’ own names

DEFINITIONS

“XNZL Ltd”	XNZL Limited, a BVI business company incorporated under the laws of the BVI with limited liability on November 29, 2019 and wholly owned by Mr. Xiang Nan, and one of our Controlling Shareholders
“YELLOW Application Form(s)”	the form of application for use by the public who require such Hong Kong Offer Shares to be deposited directly into CCASS
“Zlongame”	Tianjin Zlong Interactive Entertainment Co., Ltd.* (天津紫龍奇點互動娛樂有限公司), a company established under the laws of the PRC with limited liability, and/or any or all of its affiliates and subsidiaries
“ZY Technology”	ZY Technology Limited, a BVI business company incorporated under the laws of the BVI with limited liability on December 2, 2019 and wholly owned by Mr. Zhang Yu, and one of our Controlling Shareholders
“%”	per cent

Unless otherwise expressly stated or the context otherwise requires, all data in this prospectus is as at the date of this prospectus.

GLOSSARY OF TECHNICAL TERMS

This glossary contains definitions of certain terms used in this document in connection with our Company and our business. Some of these may not correspond to standard industry definitions.

“AAA title”	an informal classification for high-quality games, typically developed by a professional team with large amount of time and investment and published by renowned publishers
“ACG”	a subculture of Greater China particularly referring to Japanese anime, comics and games, or the fictional world or characters created in such work
“App Annie”	a mobile data and analytics platform
“ARPU”	average revenue per month per monthly active account, which is calculated by dividing the revenue generated from a particular mobile game or all our mobile games, as applicable, for the respective period by the total MAUs of the particular mobile game or the aggregate of the total MAUs of all our mobile games, as applicable, for that period
“beta testing”	a form of pre-launch external player acceptance testing, which is usually accessible to a limited number of game players and used to obtain feedback regarding game quality
“C++ language”	a general-purpose programming language, as an extension of the C programming language
“CAGR”	compound annual growth rate
“casual game”	a genre of games that feature relatively simple but attractive gameplay presented in a minimalistic fashion
“CCG”	collectable card game, a genre of games that are played by using specially designed sets of playing cards, combining the appeal of collecting with strategic gameplay
“client game”	a category of PC games that need to be downloaded for playing
“cloud gaming”	also known as gaming on demand, a type of online gaming that runs games on remote servers and streams them directly to a game player’s device
“CPC”	cost per click, a pricing model where advertising is paid on the basis of each click of the advertisement
“CPM”	cost per mille, a pricing model where advertising is paid on the basis of thousand impressions

GLOSSARY OF TECHNICAL TERMS

“CPT”	cost per time, a pricing model where advertising is paid on the basis of a fixed period of time
“cumulative registered players”	the cumulative number of accounts which have existed in any or all of our mobile games, as applicable, in the given period
“free-to-play”	a business model used in the game industry, under which game players can download and play without paying up-front cost
“grand strategy wargame”	a type of games that focus on grand strategy, containing various techniques and features to simulate military strategies
“gross billing”	the total amount paid by paying players for in-game purchases during a given period
“IP”	intellectual property
“MAUs”	the total number of accounts which access a particular game or any or all of our mobile games, as applicable, at least once during a given month. For a particular mobile game, average MAUs are calculated by dividing the total MAUs of the game for the period by the number of months within that period during which the game is in operation. For all of our mobile games, average MAUs are calculated by dividing the aggregate of the total MAUs of the games for the period by the number of months within the period during which any of the games is in operation
“midcore to hardcore game”	a game with relatively complex playing method and relatively developed storyline, including MMORPG, CCG and SLG, among others
“MMORPG”	massively multiplayer online role-playing game, a genre of games that combine role-playing games and massively multiplayer online games in which a large number of players interact with one another within a virtual world
“MOBA”	multiplayer online battle arena, a genre of games in which each game player controls a single character, usually from an isometric perspective on a map, as part of a team competing against another team of game players, with the ultimate goal to destroy the opposing team’s main structure

GLOSSARY OF TECHNICAL TERMS

“MPUs”	the total number of accounts which contribute to gross billings for any or all of our mobile games, as applicable, at least once during a given month. For a particular mobile game, average MPUs are calculated by dividing the total MPUs of the game for the period by the number of months within that period during which the game is in operation. For all of our mobile games, average MPUs are calculated by dividing the aggregate of the total MPUs of the games for the period by the number of months within the period during which any of the games is in operation
“physically based rendering”	an approach in computer graphics that renders graphics in a way accurately modeling the flow of light in the real world
“paying user, paying player”	in any given period, the account which contributes to gross billings for a particular game, a particular game genre or any or all of our games, as applicable
“QR code”	a machine-readable code consisting of an array of black and white squares, typically used for storing URLs or other information for reading by the camera on a smartphone
“real 3D”	a game graphic which is computed in three-dimensional space with z-axis allowing game players to spin around with a 360-degree view in the game
“regional version”	a version of any of our mobile games which embraces one or more language(s) and is published through self-publishing or third-party publishing in one or more region(s)
“SLG”	simulation game, a genre of games that attempt to emulate various activities from real life in the game format
“STG”	shooting game, a genre of action games in which game players are engaged in combat with opponents by shooting and progress through the game by carrying out quests
“turn-based”	a gameplay that requires game players to take turns when playing
“Unity 3D”	a cross-platform 3D game engine developed by Unity Technologies
“Unreal Engine 4”	a game engine developed by Epic Games

GLOSSARY OF TECHNICAL TERMS

“virtual item”	an item, avatar, skill, privilege or other in-game consumable, feature or functionality that game players use to extend their gameplay, enhance or personalize their game environments and accelerate their progress in our games
“web game”	a category of PC games that are played over the internet by using web browsers

FORWARD-LOOKING STATEMENTS

This prospectus includes forward-looking statements. All statements other than statements of historical facts contained in this prospectus, including, without limitation, those regarding our future financial position, our strategy, plans, objectives, goals, targets and future developments in the markets where we participate or are seeking to participate, and any statements preceded by, followed by or that include the words “believe,” “expect,” “estimate,” “predict,” “aim,” “intend,” “will,” “may,” “plan,” “consider,” “anticipate,” “seek,” “should,” “could,” “would,” “continue,” or similar expressions or the negative thereof, are forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors, some of which are beyond our control, which may cause our actual results, performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. These forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we will operate in the future. Important factors that could cause our actual performance or achievements to differ materially from those in the forward-looking statements include, among other things, the following:

- general political and economic conditions, including those related to the PRC;
- our ability to successfully implement our business plans and strategies;
- future developments, trends and conditions in the industry and markets in which we operate or into which we intend to expand;
- our business operations and prospects;
- our capital expenditure plans;
- the actions and developments of our competitors;
- our financial condition and performance;
- capital market developments;
- our dividend policy;
- any changes in the laws, rules and regulations of the central and local governments in the PRC and other relevant jurisdictions and the rules, regulations and policies of the relevant governmental authorities relating to all aspects of our business and our business plans;
- various business opportunities that we may pursue; and
- changes or volatility in interest rates, foreign exchange rates, equity prices or other rates or prices, including those pertaining to the PRC and Hong Kong and the industry and markets in which we operate.

Additional factors that could cause actual performance or achievements to differ materially include, but are not limited to, those discussed in “Risk Factors” and elsewhere in this prospectus. We caution you not to place undue reliance on these forward-looking statements, which reflect our management’s view only as of the date of this prospectus. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this prospectus might not occur. All forward-looking statements contained in this prospectus are qualified by reference to the cautionary statements set out in this section.

RISK FACTORS

An investment in our Shares involves significant risks. You should carefully consider all of the information in this prospectus, including the risks and uncertainties described below, before making an investment in our Shares. The following is a description of what we consider to be our material risks. Any of the following risks could have a material adverse effect on our business, financial condition and results of operations. In any such case, the market price of our Shares could decline, and you may lose all or part of your investment.

These factors are contingencies that may or may not occur, and we are not in a position to express a view on the likelihood of any such contingency occurring. The information given is as of the Latest Practicable Date unless otherwise stated, will not be updated after the date hereof, and is subject to the cautionary statements in the section headed “Forward-looking Statements” in this prospectus.

RISKS RELATING TO OUR BUSINESS AND INDUSTRY

We operate in a new and rapidly changing industry, which makes it difficult to evaluate our business and prospects.

Our business operation is subject to the overall prosperity of China’s mobile game industry, which may fluctuate significantly from time to time. Recent years have witnessed rapid industry evolution driven by the increasing popularity and constant technological upgrades of smartphones. According to the Frost & Sullivan Report, the overall market size of China’s mobile game industry grew from RMB97.2 billion in 2016 to RMB181.7 billion in 2019, representing a CAGR of 23.2%. Such growth may not be sustained in the future and is subject to various factors beyond our control, including the general economic conditions, people’s leisure time and spending power and changes and uncertainties of relevant laws, rules and regulations, none of which can be predicted with certainty. See “Industry Overview.” Any fluctuation or downturn in the overall development of China’s mobile game industry may reduce demand for our games and thus materially and adversely affect our business, financial condition and results of operations.

Our new games may not be commercially successful if we fail to adapt our games to new trends and attract new game players.

We cannot assure you that the new games we develop will be commercially successful. We operate in a market characterized by rapidly developing technologies, evolving industry standards, frequent new game launches and updates and changing game player preferences and demands. The good market reception of our games and our ability to further monetize depend in significant part on our ability to adapt to these rapidly changing new trends as well as our ability to continually innovate in response to evolving game player preferences and demands and intense market competition. Any failure on our part to act effectively in any of these areas may materially and adversely affect our business, financial condition and results of operations, and you should not use the success of our existing games as an indication of the future commercial success of any of the games in our pipeline.

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

- our ability to anticipate and adapt to future technological developments, new business models and evolving player preferences and demands;

RISK FACTORS

- our ability to efficiently operate our games and resolve technical difficulties and player complaints;
- our ability to publish our games efficiently and effectively in compliance with laws and regulations;
- our ability to plan and organize marketing and promotional activities; and
- our ability to improve our existing games and differentiate our new games from those offered by our competitors.

Moreover, after the launch of a new game, it may take us some time to understand whether the game will eventually become commercially successful. It requires a growth stage for building up player base and achieving market coverage, and the rise in popularity of new games during such growth stage can be slow, if it happens at all. Thus, if a game fails to be as commercially successful as we expected, we may not be able to realize such failure until several months after the launch of the game, and we may not be able to come up with solutions to mitigate our loss in a timely and effective manner. The situation may get worse when the growth stage of a new game coincides with the inevitable phasing-out recession stage of our old games. All of the above situations may result in a significant loss of game players and our business, financial condition or results of operations may be materially and adversely affected.

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

Our business, in general, depends heavily on the size of our game player base and level of our game player engagement. As of December 31, 2019, the cumulative registered players of our mobile games reached 121.2 million and the average MAUs for 2019 were 3.4 million. Our business has and will continue to depend on our game player base and game player engagement. If game players no longer view our games as attractive as compared to those of our competitors, or at all, we may be unable to maintain or increase our game player base or level of game player engagement.

A number of factors could adversely affect our game player engagement, retention or growth, including:

- we may be unable to identify and meet evolving game player preferences and demands;
- we may be unable to effectively develop or integrate new technologies on a timely basis or at all, which may decrease game player satisfaction;
- we rely in significant part on third-party channels to publish or distribute our games. If our cooperation with the third-party channels experiences any suspension, interruption or termination, or if third-party channels of our competitors offer better game services or social networking opportunities for game players, our game player acquisition or retention will be adversely affected;
- we may be unable to carry out our sales and marketing efforts in an efficient and effective manner;
- we may be unable to prevent incidents which may lead to negative public perception of us or damage our reputation;

RISK FACTORS

- we may encounter technical or other problems that prevent our services from operating in a smooth and reliable manner or otherwise compromise game player experience;
- our competitors may offer games with better game player experience, which may erode our existing game player base or hinder our game player growth;
- we may fail to address game players' concerns related to privacy, data safety or security; and
- we may be obligated to compromise game player experience to comply with legislation, regulations, government policies or requests from government authorities.

In addition, our new games may attract players away from our existing games and reduce the game player base of our existing games, which could in turn make those existing games less attractive to other game players, resulting in decline in revenue from our existing games. Players of our existing games may also spend less purchasing virtual items in our new games than they would have spent if they had continued playing the existing games.

If our game player retention, engagement or growth is adversely affected by any of the foregoing or otherwise, our business, financial condition or results of operations may be materially and adversely affected.

The market in which we operate is highly competitive. If we are unable to compete effectively against our competitors, our game player base, market share and profitability may be materially and adversely affected.

China's mobile game industry is, and is expected to remain, highly competitive. According to the Frost & Sullivan Report, in 2018, the top ten market players collectively held a market share of 85.6% and the top two market players dominated the market with their aggregate market share of 67.0% as measured by revenue. Our competitors may have more diversified game portfolios, greater brand recognition, stronger relationships with third-party publishers or distributors, larger game player bases, longer operating histories or greater financial, technological or marketing resources. As a result, they may be able to respond more quickly and effectively to new or changing opportunities, technologies, regulatory requirements or game player demands than us. As competition intensifies, we may need to devote more marketing resources and incur higher selling and marketing expenses. We may also have to offer more incentives to our game players as well as our third-party publishers or distributors, which could adversely affect our profitability. If we fail to compete cost-effectively or at all, our market share could decline and our results of operations could be materially and adversely affected. All of these make it difficult to evaluate our business and prospects due to a level of uncertainty.

A selected few landmark games generated a substantial amount of our revenue each year. If we fail to launch new games with good market reception or extend the lifecycle of our existing top grossing games, we may not be able to maintain or grow our revenue and our business, financial condition and results of operations may be materially and adversely affected.

During the Track Record Period, we derived a substantial amount of our revenues from a small number of landmark games, including *Fantasy Zhuxian* (夢幻誅仙), *The Castle in the Sky* (天空紀元), *King of Kings/World of Kings* (萬王之王3D), *Dragon Raja* (龍族幻想) and *Love & Sword* (御劍情緣). These five games in aggregate contributed 70.5%, 74.1% and 91.5% of our total revenue in 2017, 2018 and

RISK FACTORS

2019, respectively. We expect that our existing and future landmark games will continue to generate the majority of our revenues in the near future. Should there be (i) any decline in the number of game players of these games, (ii) any failure by us to upgrade, enhance or optimize these games in a timely manner or at all, (iii) any lasting or prolonged server interruption due to network failures or other reasons, or (iv) any other unfavorable changes made to these games, our business, financial condition and results of operations could be materially and adversely affected. Also, our games are subject to limited lifecycle. Despite our efforts on extending their lifecycle, we cannot assure you that our landmark games can remain attractive to game players as long as we expect, given that game players change their preferences all the time. If our limited number of landmark games become less attractive or if the revenue generated from these games declines in any short or extended period of time for any reason, our business, financial condition and results of operations could be materially and adversely affected.

We work with third parties to publish, distribute or operate certain of our games and any loss or deterioration of our relationships may result in loss of game players and revenues.

We work with top-notch publishers such as Tencent and Zlongame (紫龍遊戲) to publish, promote and operate certain of our games and we cooperate with major online application marketplaces such as iOS App Store and Google Play to distribute certain of our games. Our strong and stable relationships with these third parties are crucial to our business. In particular, given that we have and will further expand the distribution of our games to international markets, including Hong Kong, Macau, Taiwan, Southeast Asia, South Korea, Japan, Europe and the Americas, we value our relationship with local publishing, distribution or operating partners. Our five largest customers, all being our publishers under our development and licensing business, accounted for 65.5%, 65.8% and 75.9% of our total transaction amount in 2017, 2018 and 2019, respectively. Our business may be materially and adversely affected if these third-party game publishers, distributors or operators discontinue or limit our access to their platforms, fail to effectively promote our games or otherwise fulfill their contractual obligations, establish more favorable relationships with one or more of our competitors, or fail to obtain or maintain the licenses required to publish or distribute our games.

Disputes with our game publishers, distributors or operators, such as disputes relating to game intellectual property, liability limitations, risk allocation or revenue sharing arrangements, may also arise from time to time. We cannot guarantee that we will be able to resolve such disputes amicably or at all. Besides, some publishers develop and publish their own games. We are therefore subject to direct competition and potential conflicts of interest with such publishers, which may intensify in the future. If our collaboration with a major game publisher, distributor or operator fails or deteriorates for any reason, we may not be able to find a replacement in a timely manner or at all, and the distribution of our games may be adversely affected. Any failure to maintain a stable business relationship with a sufficient number of popular platforms could cause a decrease in downloads of our games, which would have a material adverse effect on our business, financial condition and results of operations.

In addition, we have benefited from the widely recognized brand names and large player bases of certain of our game publishing and distribution channels. If any of them lose their market position or otherwise fall out of favor with game players, or any other factor causes their game player base to stop growing or shrink, we would need to identify alternatives for publishing, promoting and distributing our games, which, if available at all, would consume substantial resources and could adversely affect our business.

RISK FACTORS

Any restriction on access to major distribution channels, such as iOS App Store and Google Play, or the internet, could lead to a loss or slower the growth of our game player base.

Our game players need to access the internet, in particular, major game distribution channels such as iOS App Store and Google Play, to download our games. Laws and regulations or government authorities may block or limit the access to these platforms or the internet generally for reasons of security or confidentiality concerns. For example, Google Play has become inaccessible in mainland China. If the distribution channels operate in a way contravening applicable laws and regulations or if government authorities identify potential issues raising concerns of negative social impact, these platforms may face temporary or longer suspension of operations. Any restriction on access to these distribution channels or the internet in general could lead to a loss or slower the growth of our game player base and our business, financial condition, results of operations and prospects may be materially and adversely affected.

We rely on a relatively small portion of our total players for our revenue from integrated game publishing and operation business, and may fail to retain our game players or convert them into paying users effectively.

Consistent with industry norms, our revenue from integrated game publishing and operation business is generated from paying players who only account for a relatively small portion of our total registered players and active players. In 2017, 2018 and 2019, our average MPUs were 0.7 million, 0.4 million and 0.5 million, respectively, representing only 15.2%, 13.2% and 14.6%, respectively, of the average MAUs for the same periods. As a result, the numbers of our cumulative registered players and active players do not necessarily indicate our actual and potential revenue-generating capabilities. Our sustainable growth, therefore, largely depends on our capability of satisfying the demands of our paying players, attracting new paying players and stimulating their in-game purchases.

As all of our games are free to download and play, we are able to attract more novice game players because they feel less burdened when no fee is required for starting a game and they have discretion regarding in-game purchases. However, such game players are generally sensitive to the price of virtual items. If we are not able to introduce new virtual items catering to game players' evolving demands, or to market them effectively and price them appropriately, we may fail to increase the number or percentage of paying players in our game player base, which will adversely affect our revenue and profitability.

We also need to provide easy, fast and safe payment solutions to our game players to facilitate in-game purchases and prevent our game players from being discouraged or inconvenienced by complicated online payment processing procedures. We cannot assure you that our third-party payment service providers will operate consistently in an efficient way, and any interruption of their payment services could affect the monetization of our game player base, which in turn could adversely affect our revenue and profitability. See “— We rely on third-party online payment channels for payment collection. Any interruption of their services or unintended leakage of confidential information may materially and adversely affect our reputation and business.”

Further, although ARPU of our mobile games increased from RMB24 in 2018 to RMB26 in 2019, we cannot assure you that we can continue to increase our monetization of our game player base or at all. If we are unable to successfully monetize our game player base, which in turn affects our ARPU, our business, financial condition and results of operations could be materially and adversely affected.

RISK FACTORS

Our profitability depends largely on the life cycle of each game and we cannot assure you for how long a game would stay at each life cycle stage and a game’s revenue-generating capability during each stage.

Our mobile games generally experience several stages in their life cycles, including (i) the growth stage, during which we build up player base and achieve market coverage; (ii) the maturity stage, during which revenue tends to be continuously and steadily generated by the game and the number of game players generally remains stable during this stage; and (iii) the recession stage, during which the number of game players and revenue generated by the game may decline. Our games may rely on either the growth stage or the maturity stage for generating a significant portion of revenue. We cannot assure you for how long a game would stay at each life cycle stage and a game with a shorter maturity stage may generate more revenue than a game with a longer maturity stage. Therefore, the life cycle stages vary from game to game and may not be indicative of a game’s rate of growth and revenue-generating capability.

We may not be successful in developing new games, and if we are unable to effectively control our research and development costs, our results of operations may be materially and adversely affected.

Leveraging our preeminent research and development capability, we are a leading mobile game developer in China. To be successful in developing new games, we rely largely on our ability to:

- anticipate and adapt to rapidly changing technologies;
- continually innovate in response to evolving game player preferences and demands;
- attract, retain and motivate talented game development personnel;
- effectively monetize games without degrading the gameplay experience for our game players;
- organize efficient game testing;
- effectively execute our game development plans; and
- build and maintain strong relationships with outsourcing partners.

In-house development is a time-consuming process and it requires a substantial initial investment prior to the game launch, as well as a significant commitment of future resources to produce updates and expansion packs. See “Business — Our Business Processes — Game Development.” We incurred research and development expenses of RMB455.5 million, RMB327.6 million and RMB389.2 million in 2017, 2018 and 2019, respectively. During the Track Record Period, approximately 90% of the game development proposals completed the process and entered into the production phase. We cannot assure you that we will be able to improve or maintain such pass rate. If we are unable to effectively control our research and development costs and minimize cost overruns, our business, financial condition and results of operations could be materially and adversely affected.

RISK FACTORS

We depend on our key executives and certain other employees performing vital functions, and our business and growth prospects may be severely disrupted if we fail to retain or motivate them or recruit the right personnel for such responsibilities.

We have and will continue to depend on the continued efforts of our senior management team and other key employees. In particular, we rely on the expertise and experience of Mr. Li Qing, Mr. Li Yi and Mr. Zhang Yu, all being core members of our senior management team, who have formulated our strategies and been instrumental to our achievements to date. See “Directors and Senior Management.” The loss of our senior management members or several of our other key employees could impair our ability to operate and impede the execution of our business strategy. We may not be able to replace such persons within a reasonable period of time or with another person of equivalent expertise and experience, in which case our business may be severely disrupted and our financial condition may be impaired.

In addition, our continued success will also depend on our ability to attract and retain qualified administrative, supervisory and management personnel to manage our existing operations and future growth. Qualified and talented individuals are scarce and in high demand and, as a result, competition for these individuals is intense. If any of our executive officers or key employees joins a competitor or forms a competing company, we may lose know-how, trade secrets, business partners and key professionals and staff. Further, we may need to offer higher compensation and other benefits to attract and retain key personnel in the future, which could increase our compensation expenses. We may not be able to recruit or retain sufficient talent to support the growth of our business. See “Business — Employees.”

If we fail to keep up with technological developments, our business, financial condition and results of operations may be materially and adversely affected.

The gameplay experience of our game players depends in significant part on the technologies we adopt in our games. Enhancing existing technologies and incorporating new technologies into our services may involve numerous technical challenges, substantial capital and personnel resources and significant time, and we may not be able to meet these challenges effectively due to various factors, some of which are beyond our control. Although we have and will continue to devote significant resources to the enhancement and development of technologies and services, we may not be able to effectively develop or integrate new technologies on a timely basis or at all, which may decrease game player satisfaction. In addition, new technologies may not succeed or integrate well with our games, and even if integrated, may not function as expected or may be unable to retain and grow our game player base. Our failure to keep pace with rapid technological changes may affect our ability to retain or grow game player base or generate revenue, and have a material adverse effect on our business, financial condition and results of operations.

Any failure or significant interruption in our technology infrastructure could impact our operations and harm our business.

We may experience technology system disruptions, outages and other large-scale performance problems due to a variety of factors, including technology infrastructure changes, human or software errors, hardware failure, capacity constraints due to an unusually large number of game players accessing our games simultaneously, computer viruses and denial of service, fraud and security attacks, whether such

RISK FACTORS

disruptions, outages or other problems are caused by ourselves or by third-party service providers. Such disruptions, outages or other problems might make some or all of our systems or data unavailable or prevent us from efficiently providing services to our game players.

We may sometimes encounter temporary system disruptions and we may fail to timely monitor and report these disruptions. As the number of our game players increases and the amount of our player-generated data continues to grow, we may be required to expand and adapt our technology and technology infrastructure to continue to reliably store, process and analyze such data. It may become increasingly difficult and costly to maintain and improve the performance of our services to game players, especially during peak usage times, as game traffic increases. If game players are unable to access our services in a timely manner, or at all, gameplay experience of our game players may be compromised, and the game players may seek games from our competitors to meet their needs and may not play our games as often in the future, or at all. This may materially and adversely affect our ability to retain or grow our game player base or maintain the level of game player engagement and/or perception of our games which in turn may materially and adversely affect our business, financial condition and results of operations.

Flaws in our games, including programming errors or defects in our games could harm our reputation or affect the credibility of our games.

Our games are subject to frequent updates, and may contain bugs or flaws that can only become apparent when the updates are accessed by a number of game players, especially when we launch updates under a tight schedule. From time to time, our game players may inform us of programming bugs affecting their gameplay experience, and if the programming bugs affect the gameplay experiences of our game players severely, or for any reason, we cannot resolve the bugs in a timely manner, we may lose some of our game players and the reputation of our games may be harmed, which may materially and adversely affect our business, financial condition and results of operations.

In addition, the PRC government has promulgated rules and regulations targeting mobile service providers that charge for applications and other content without game players' consent. If a programming error or flaw in our games inadvertently charges game players without their consent, we may be subject to administrative penalties and fines.

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

We have established game policies against unauthorized and inappropriate game player behaviors. Under such policies, we do not allow unauthorized third parties to sell in-game virtual items in exchange for real-world currencies, given that our in-game virtual items have no monetary value outside of our games. From time to time, such unauthorized transactions are arranged through third-party channels or platforms which we are not able to monitor or control. Any such unauthorized purchase and sale could impede our revenue and profit growth by (i) decreasing revenue from authorized transactions, (ii) creating downward pressure on the prices we charge game players for our virtual items, (iii) increasing costs we incur to develop technological measures to curtail unauthorized transactions, and (iv) increasing game player service costs to comfort dissatisfied game players. In addition, transactions through unauthorized third-party channels may involve fraud that is beyond our control, and we may

RISK FACTORS

face potential claims from our game players in connection with their losses resulting from third parties' fraudulent activities. Such claims, regardless of merit, may harm our reputation, divert our management's attention and cause additional expenses in defending against these claims.

Furthermore, third parties may develop cheating systems that enable game players to exploit vulnerabilities in our games or obtain unfair advantages over other game players. These cheating systems may harm the experience of players who play fairly and may disrupt the virtual economies of our games. If we fail to discover and disable these cheating activities timely and effectively, our operations may be disrupted, our reputation may be damaged and our game players may quit our games, which in turn may cause losses of revenue from paying players, increase the cost of developing technological measures to combat these cheating activities, result in legal claims relating to the decrease in value of our virtual items, and increase cost of game player service to comfort dissatisfied game players.

Our business is heavily dependent on our data analytics. Any inability to access and capture accurate data may materially and adversely affect our ability to adopt appropriate business strategies.

Our game development, publishing and operations are data driven, and we leverage our data collection and analytics capabilities to acquire better understanding of game player preferences. Capitalizing on our comprehensive data collection and analytics system, we routinely collect and store in-game player behavioral data to work out operating metrics such as average MAUs, average MPUs and ARPU. Collection of data is subject to various limitations such as regulatory requirements and we cannot guarantee the accuracy of our data as our ability to verify such data is limited and we may face technical errors, security breaches, hacking incidents, or refusal by the third-party publishers to share any such data with us. Therefore, we may fail to gather or retain data timely and the data we capture may not be sufficient and accurate enough to avoid misleading analytical results which may materially and adversely affect our ability to adopt appropriate business strategies.

We rely on assumptions and estimates to calculate certain key operating metrics, and inaccuracies in such metrics may harm our reputation and adversely affect our business.

We cannot assure you of the indicative value of our key operating metrics which are derived and calculated based on various assumptions and estimates that may be different from those used by third-party publishers or distributors or competitors due to differences in data availability, sources and methodology. Any material inaccurate data analytics may lead to inappropriate operational and strategic decisions, and our business, financial condition, results of operations and prospects may be materially and adversely affected.

Privacy concerns relating to the use of game player information by us or third parties, or any actual or perceived failure by us or third parties to comply with applicable data protection laws and regulations or privacy policies, could adversely affect our game player base or game player engagement, or subject us to governmental regulation and other legal obligations, which could materially and adversely affect our business, financial condition and results of operations.

We receive, transmit and store a large volume of personally identifiable information and other player-generated data. Part of our player-generated-content is stored on servers maintained by third parties. We face risks inherent in handling a large volume of data and in protecting the security of such data. The

RISK FACTORS

security measures and technologies which we relied on to safeguard confidential and proprietary information in our information systems may not adequately prevent security breaches. Our information systems may become unavailable or fail to perform as anticipated for various reasons, including viruses, loss of power or human error. Any system failure or security breach that results in the release of, or unauthorized access to, personal data, could result in our breach of applicable privacy and data protection laws, regulations and policies.

We are subject to laws and regulations of China and other countries and regions relating to the collection, use, retention, disclosure and transfer of personally identifiable information and player-generated data. The intent of such laws and regulations is to protect the privacy of personal information that is collected, processed and transmitted in or from the governing jurisdiction. Given that we have and will further expand the distribution of our games to international markets, including Hong Kong, Macau, Taiwan, Southeast Asia, South Korea, Japan, Europe and the Americas, we are subject to corresponding legislation and regulation in such jurisdictions. Data protection laws and regulations or privacy policies in China and in these international markets continue to develop and may vary from jurisdiction to jurisdiction and we need to comply with emerging and changing international requirements. For example, our games published in the United States make us subject to the Children's Online Privacy Protection Act, or COPPA, which regulates the collection of information online from children under the age of 13, and the Federal Trade Commission Act, which prohibits unfair or deceptive actions both online and offline and has been applied to data security and online privacy regulation. As we also distribute our games to Europe, the European General Data Protection Regulation, or GDPR, which took effect in May 2018, may also apply to our business in Europe. GDPR imposes operational requirements on companies that receive or process personal data of residents of the European Union and GDPR requirements are different from those formerly in place in the European Union. To ensure our compliance with all these international requirements, we may need to put in place additional mechanisms and incur substantial costs. Any failure or perceived failure by us to comply with or to accurately anticipate the application, interpretation or legislative expansion of any privacy policies or regulatory requirements or privacy protection related laws, rules and regulations could result in proceedings or actions against us by government authorities or others. These proceedings or actions may subject us to significant penalties and negative publicity, require us to change our business practices, increase our costs and severely disrupt our business.

We rely in significant part upon effective interoperation with mobile operating systems, networks and mobile devices whose standards we do not control.

We make our games available across a variety of mobile operating systems and devices. We are dependent on the interoperability of our games with popular mobile devices and mobile operating systems that we do not control, such as Android and iOS. Any changes in such mobile operating systems or devices that decrease the functionality of our games or give preferential treatment to competing games may materially and adversely affect gameplay experience of our game players. Further, if the number of platforms for which we develop or adjust our games increases, which is typically seen in the dynamic and fragmented mobile internet market in China, it will result in an increase in our costs and expenses. To deliver high-quality games, it is important that our games work well across a range of mobile operating systems, networks, mobile devices and standards that we do not control. If it becomes difficult for our game players to access and play our games, our game player growth and game player engagement could be harmed, which in turn may materially and adversely affect our business, financial position and results of operations.

RISK FACTORS

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

With our major operations based in China, we rely on wireless and landline telecommunications networks in China to manage game player accounts and player-generated data, facilitate data transmission and communications, and monitor the overall operational status of our games. The national networks in China are connected to the internet through international gateways controlled by the PRC government, which are the only channels through which a game player in mainland China can connect to the internet. These international gateways may not match with the continued growth in internet traffic and game players' evolving demand in China. We cannot assure you that the development of China's information infrastructure will be adequate to support our operations and growth, especially when our games may need to accommodate more game players as we grow our business. In addition, in the event of any infrastructure disruption or failure, we may not be able to access alternative networks and services timely, or at all, which could have a material adverse effect on our business, results of operations and prospects.

We may not be successful in promoting our brand or enhancing our brand recognition, and any negative publicity, regardless of its veracity, may harm both our brand and the specific games we publish.

We have built our well-recognized brand in the mobile game industry, which is critical to our business operations and continuous efforts to expand the bases of our game players and business partners. Our business and financial performance is highly dependent on the strength and the market perception of our brand and games.

Any negative publicity involving us, our management, our games, our game players, our business partners and our industry may harm our brand. In particular, given the nature of the mobile game industry, we are more exposed and susceptible to negative publicity. We may not be able to defuse any negative publicity about us, our management or our games to the satisfaction of our game players and business partners. Negative publicity about our brand may also require us to engage in defensive media campaigns and legal actions, which may increase our marketing or legal expenses and divert our management's attention and may materially and adversely affect our brand image, our business, financial condition and results of operations.

Unauthorized use of our intellectual property may harm our brand and reputation and adversely affect our business.

We regard our proprietary domain names, copyrights, trademarks, patents, trade secrets and other IP rights to be critical to our business operations. We rely on a combination of patent, copyright, trademark and trade secret laws and restrictions on disclosure to protect our intellectual property rights. Despite our efforts to protect our proprietary rights, third parties may attempt to copy or otherwise obtain or use our intellectual property, including seeking court declarations that they do not infringe upon our intellectual property rights.

RISK FACTORS

Monitoring unauthorized use of intellectual property is difficult and costly, and the steps we or our business partners have taken may not fully prevent the infringement or misappropriation of our intellectual property rights. From time to time we may have to resort to litigation to enforce our intellectual property rights, which could result in substantial costs and diversion of our resources, and thus may materially and adversely affect our business.

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

Due to the nature of our business as a game developer, we are subject to legal proceedings and claims relating to the IP rights from time to time in the ordinary course of our business. For example, in June 2019, Dashenquan Culture Technology Co., Ltd. (北京大神圈文化科技有限公司) (“Dashenquan”) filed a lawsuit against, among others, our subsidiaries, Tianjin Loong and Huai’an Loong before the Beijing Chaoyang People’s Court (the “Court”) in China, alleging that the copyright licensing agreement (the “Mobile Game Licensing Agreement”) in relation to the literary work Dragon Raja (龍族) (the “Fiction”) is invalid. For further details regarding our legal proceedings, see “Business — Ongoing Legal Proceedings.” We may continue to be subject to other legal proceedings and claims from time to time relating to the IP rights in the ordinary course of our business. There are inherent uncertainties associated with legal proceedings. If the Court rules against us, we may be obliged to cease operation of certain of our games, which may in turn have a material and adverse effect on our financial condition and results of operations.

Any such proceedings or actions or claims, with or without merit, could be costly and distract our management from day-to-day operations. If we fail to successfully defend against such claims or do not prevail in such proceedings, we may be prohibited from using such IP rights, subject to fines and penalties, or be required to modify, optimize or cease operating the games, or satisfy indemnification obligations that we have with some of our game players, or enter into royalty or licensing arrangements with licensing fees or be forced to develop alternatives. Any royalty or licensing arrangements that we seek in such circumstances may not be available to us on commercially reasonable terms or at all. And we may incur substantial legal expenses in defending against these third-party infringement claims, regardless of their merits. Our exposure to infringement actions may increase when we rely on third-party IP providers being our only source of verifying the origin and ownership of the IP. This exposure to liability could result in disruptions in our business that could materially and adversely affect our results of operations.

In addition, some of our employees were previously employed by other companies, including our current and potential competitors. We also intend to hire additional personnel to enrich our talent pool. If these employees are involved in our research and development of technologies similar to work products at their former employers, we may become subject to claims that these employees or we have appropriated proprietary information or intellectual property of such employees’ former employers. If we fail to successfully defend such claims against us, we may be exposed to liabilities which could have a material adverse effect on our business and reputation.

For further details regarding risks relating to legal proceedings, see “— Risks Relating to Our Business and Industry — We may become a party to legal, administrative proceedings and regulatory inquiries, which could result in an unfavorable outcome and have an adverse effect on our business, financial condition, results of operations and cash flows.”

RISK FACTORS

We may be held liable for inappropriate online communications or content made by our players.

Our game players are encouraged to communicate with each other through our in-game platforms. While most game players share their gameplay experience or information about promotional activities on these platforms, some may engage in illegal, obscene or incendiary conversations that may result in a negative impact among other players. Although we screen certain words according to the lists provided by the relevant government authorities, we cannot assure you that all the sensitive information contained in our game players' conversations can be identified. Certain such information or content may be deemed unlawful under applicable laws and regulations, and government authorities may require us to discontinue or restrict certain features, services or games that would have led, or may lead, to such events. We may incur significant costs in investigating and defending ourselves for claims or penalties caused by the improperly-disseminated information, and our business, financial condition, results of operation and prospects may be materially and adversely affected.

Distributing our games to the international markets brings us additional business, political, regulatory, operational, financial and economic risks, and if we are unable to effectively manage these risks, our ability to expand our business internationally could be impaired.

Given that we have and will further expand the distribution of our games to international markets, including Hong Kong, Macau, Taiwan, Southeast Asia, South Korea, Japan, Europe and the Americas, we are subject to the dynamic and complex challenges of conducting business in an environment of multiple languages, cultures, customs, legal systems, alternative dispute resolution systems and commercial infrastructures.

A number of factors could adversely affect our operations in international markets, including:

- our ability to recruit and retain talented and capable management and employees with the experience and insight necessary for global operation;
- our ability to cope with challenges caused by distance, language and cultural differences;
- our ability to customize our games and other offerings to cater for the preferences of overseas game players;
- our ability to protect our IP;
- our ability to implement alternative payment methods for virtual items in a manner that complies with local laws and practices and protects us from payment fraud;
- currency exchange rate fluctuations;
- our ability to adapt to local business practices;
- our ability to build and maintain strong relationships with local partners;
- our ability to deal with protectionist laws and business practices that favor local businesses in some countries; and
- political, economic and social instability.

RISK FACTORS

If we are unable to manage the risks and costs of our international expansion effectively, our growth rate and prospects may be materially and adversely affected.

Unsanctioned use of our services in specific jurisdictions may give rise to regulatory risks.

Internet-based business is generally not bounded, which means game players from all over the world can access our games and we do not restrict access from any specific jurisdiction unless the local regulators so require. Generally, a game player is required to provide proof of identity such as an identification number when applying for a player account, or represent that he/she is not barred from receiving our services under his/her local laws. To date, we are not aware of any regulatory regime, nor have we received any notice from any local regulators or major distribution channels, which requires us to restrict access to or take down our games in any specific jurisdiction. Although we do not believe that the mere fact that our games are accessible in a particular jurisdiction necessarily makes us subject to the local laws and regulations, we cannot assure you that the local regulators share the same understanding. As a result, if the local regulators in any specific jurisdiction place access restrictions to our games, any unsanctioned use of our services by local players may subject us to regulatory risk, including monetary penalties or injunctions, which may adversely affect our business operations.

In addition, the United States and other jurisdictions or organizations, including the European Union, the United Nations and Australia, have, through executive order, passing of legislation or other governmental means, implemented measures that impose economic sanctions against certain countries or jurisdictions, or against targeted industry sectors, groups of companies or persons, and/or organizations within such countries. Currently, we do not and also do not plan to operate in jurisdictions that are subject to comprehensive International Sanctions, and we do not have third-party game publishers in comprehensively sanctioned jurisdictions. However, it is possible that our games could be accessed in such comprehensively sanctioned jurisdictions or by Sanctioned Persons. We cannot predict the interpretation or implementation of government policies in the United States at the federal, state or local levels or any policy of the European Union, the United Nations, Australia and other applicable jurisdictions with respect to any current or future activities by us, our affiliates or third-party publishers in countries subject to International Sanctions and with Sanctioned Persons. As a result, we cannot assure you that our future business will be free of risk under sanctions implemented in these jurisdictions or that we will conform our business to the expectations and requirements of the United States authorities or the authorities of any other government that may not have jurisdiction over our business, but nevertheless assert the right to impose sanctions on an extraterritorial basis. Our business and reputation could be adversely affected if the authorities of the United States, the European Union, the United Nations or Australia or any other governmental entity were to determine that any of our activities constitutes a violation of the sanctions they impose or provide a basis for a sanctions designation of our Company. In addition, as many sanction programs are constantly evolving, new requirements or restrictions could come into effect, which might increase scrutiny of our business or result in one or more of our business activities being deemed to have violated sanctions, or being sanctionable.

RISK FACTORS

Changes in international trade policies and barriers to trade or the emergence of a trade war may have an adverse effect on our business and expansion plans.

In recent years, international market conditions and the international regulatory environment have been increasingly affected by competition among countries and geopolitical frictions. Changes in international trade policies and barriers to trade or the emergence of a trade war could adversely affect the financial and economic conditions in the jurisdictions in which we operate, as well as our international and cross-border operations, our financial condition and results of operations.

A trade war has been initiated between the United States and the PRC. The government of the United States has sought to blacklist certain PRC technology companies, which would make it difficult for those companies to conduct business with enterprises in the United States. Among the blacklisted PRC technology companies, some are PRC mobile phone manufacturers which utilize major game distribution channels such as Google Play. To comply with the government directives of the United States, some of the distribution channels have suspended certain software and technical services to certain PRC mobile phone manufacturers, which would prevent the users of those mobile phones from accessing those distribution channels. If the trade war continues to intensify, further restriction of access to the distribution channels on those PRC mobile phones may result in a loss or slower the growth of our game player base and our financial position, results of operations and expansion plans could be affected.

Our failure to comply with laws, rules and regulations as well as changing laws, rules and regulations and legal uncertainty could materially and adversely affect our business, financial condition and results of operations.

Our business operations are subject to a variety of PRC laws, rules and regulations, affecting various aspects of our operations, including, among others, ownership structure, requisite licenses, marketing strategy, game stories, customer relationships and intellectual property. Local laws or regulations in international markets where we distribute our games may also be applicable to us. See “Regulatory Overview.” In the event that we fail to comply with these laws and regulations and material fines and/or proceedings are made against us by regulatory authorities and/or affected parties, our business, financial condition and results of operations may be materially and adversely affected.

The promulgation of new laws, rules and regulations that restrict or otherwise unfavorably affect the ability or manner in which we operate would require us to adopt certain changes to ensure compliance, and could decrease demand for our services, reduce revenue, increase costs, limit profitability and/or subject us to additional liabilities. For example, in May 2019, the general office of MOCT released the Notice on Adjusting the Scope of Examination and Approval regarding the Internet Cultural Operation License 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), which specifies that the MOCT no longer assumes the responsibility for the administration of the online game industry and no longer approves and issue the Internet Cultural Operation License within the business scope of “operating online games via the internet,” “operating online games via the internet (including the issuance of virtual currencies used for online games)” and “conducting trade of virtual currencies used for online games via the internet.” On July 10, 2019, the MOCT issued the Decision on the Abolition of the Interim Measures for the Administration of Online Games and the Administrative Measures for Tourism Development Plan (關於廢止《網絡游戲管理暫行辦法》和《旅游發展規劃管理辦法》的決定) (the “**Abolition Decision**”), which specifies that the Online Game Measures was abolished by the MOCT on July 10, 2019. However, it is still unclear as to whether

RISK FACTORS

the supervision responsibility of the MOCT will be transferred to another governmental department or whether such governmental department will raise similar or new supervision requirements for the operation of online games. Therefore, considerable uncertainties exist regarding the interpretation and implementation of existing and future laws and regulations governing our business activities.

Besides, on August 30, 2018, eight PRC regulatory authorities at national government level, including the MOE, released the Implementation Programme on Prevention of Juveniles Myopia. To prevent myopia among children, through measures taken by various regulatory authorities, the Implementation Programme on Prevention of Juveniles Myopia aims for (i) controlling the number of new online games and (ii) limiting the length of time juveniles spend on electronic devices. As of the Latest Practicable Date, although 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) issued by the NAPP on October 25, 2019 regulates the time slot and duration for playing online games by minors, no further and detailed implementation rule has been issued to enforce the Implementation Programme on Prevention of Juveniles Myopia regarding online games, and therefore its impact on our future business operations and financial performance remains unclear and unforeseeable. Our Directors consider that it is impracticable to forecast the expected quota on the number of online games approved for publication per year as well as the measures that will be required to be taken to restrict juveniles' playing time of our games pursuant to the then effective detailed implementation rules in the future. Although it is unclear and unforeseeable when and how the Implementation Programme on Prevention of Juveniles Myopia will be enforced, risks exist that (i) its enforcement could impact our ability to launch and publish new games in the future, and require us to spend more time and costs in preparing and receiving the approvals necessary to launch our games; and (ii) its enforcement could discourage juveniles from playing our games due to restrictions on playing time, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

Failure to obtain, renew or retain requisite licenses, permits or approvals, or failure to comply with applicable laws and regulations may adversely affect our ability to conduct our business.

Our business involves mobile game operation and we must obtain and maintain applicable licenses and approvals such as the ICP License, and Internet Cultural Operation License to support our lawful operation. See “Business — Licenses and Permits.” These licenses, permits or approvals are subject to regular government review or renewal. Although we did not have incidents of material non-compliance with respect to the licenses during the Track Record Period, we cannot assure you that we can successfully obtain, update or renew all the required licenses, permits and approvals in a timely manner, which may subject us to various penalties such as imposition of fines, discontinuation or restriction of our operations, and confiscation of illegally obtained revenue. In addition, we cannot assure you that our third-party publishers, distributors or licensed operators have obtained and will timely renew required licenses, permits or approvals for publishing or operating our games. Any penalties arising from violations of local applicable laws may disrupt our business operations and materially and adversely affect our business, financial condition and results of operations.

Also, we and our third-party publishers, distributors or licensed operators might be required to seek additional licenses, authorizations or approvals from relevant regulators, the granting of which may be dependent on us meeting certain capital and other requirements and our games may be subject to additional regulation and oversight, such as reporting to regulators, all of which could significantly

RISK FACTORS

increase our operating costs. Changes in current laws or regulations or the imposition of new laws and regulations in the jurisdictions in which we operate regarding these activities may lessen the growth of online game services and impair our business.

We may become a party to legal, administrative proceedings and regulatory inquiries, which could result in an unfavorable outcome and have an adverse effect on our business, financial condition, results of operations and cash flows.

We may be subject to various legal, administrative proceedings, regulatory inquiries and claims that have arisen in the ordinary course of our business which may not be fully resolved, and new claims may arise in the future. Agreements entered into by us sometimes include indemnification provisions which may subject us to costs and damages in the event of a claim against an indemnified third party. In particular, we have been, and may continue to be in the future, subject to various intellectual property claims, including patent, copyright and trademark disputes, relating to IP used in our games. See “Business — Ongoing Legal Proceedings.” We cannot assure you that we will not be involved in any such legal or administrative proceedings in the future and we may face increasing regulatory inquiries during the growth of our business. If one or more legal or administrative matters, including ongoing ones, are resolved against us, or an indemnified third party seeks certain amounts in excess of our management’s expectations, or certain injunctions are granted to prevent us from operating our games, our business and financial conditions could be materially and adversely affected. Such outcome could result in significant compensatory or punitive monetary damages, disgorgement of revenue or profits, remedial corporate measures, cessation of business operation, injunctive relief or specific performance against us that could materially and adversely affect our financial condition and operating results.

We rely on third-party online payment channels for payment collection. Any interruption of their services or unintended leakage of confidential information may materially and adversely affect our reputation and business.

We rely on major third-party payment channels such as Alipay and Weixin Pay to facilitate and collect game players’ payment for in-game virtual items. We are subject to various risks and uncertainties associated with these third-party online payment channels. Any interruption in their payment services could adversely affect our payment collection, and in turn, our revenue.

In all online payment transactions through third-party payment channels, secured transmission of players’ confidential information, including credit card and bank account numbers, personal information and billing addresses, over public networks, is essential for maintaining player confidence. We do not have control over the security measures of the third-party payment channels, and their security measures may not be adequate at present or may not be adequate with the expected increased usage of online payment systems. We could be exposed to litigation and possible liability if we fail to safeguard players’ confidential information, which could harm our reputation and our ability to attract or retain players and may have a material adverse effect on our business.

Furthermore, our payment channels are subject to various laws and regulations regulating electronic funds transfers and virtual currencies, which could change or be reinterpreted in a way that will adversely affect their compliance. If our payment channels experience any non-compliance incidents, they may be subject to fines and higher transaction fees and even lose their ability to accept online payments from our players, which in turn would materially and adversely affect our ability to monetize our game player base.

RISK FACTORS

We offer relatively long credit term to our customers and we are subject to credit risk associated with the trade receivables. Any payment delays or defaults from third-party publishing and distribution channels, licensed operators and payment channels may materially and adversely affect our cash flow or financial results.

We receive sales proceeds collected from our game players through third-party publishing and distribution channels, licensed operators and third-party payment channels. We generally offer a relatively long credit term of 90 to 150 days to our customers and our cash flow may be materially and adversely affected by any deterioration in their credit quality. If our customers or other business partners delay or default on their payments, for reasons including non-payment or requests for refund by game players, deterioration or termination of our relationship with these customers or business partners or a general decrease in their business, we may not be able to fully recover the outstanding amounts due from these business partners and we may have to make provision for impairment, write off the relevant receivables and/or incur legal costs to enforce our rights. As of December 31, 2017, 2018 and 2019, our net trade receivables amounted to RMB294.1 million, RMB280.7 million and RMB545.8 million, respectively. As of December 31, 2017, 2018 and 2019, our trade receivables aged more than three months amounted to RMB88.8 million, RMB91.6 million and RMB322.1 million, respectively, representing 29.8%, 32.3% and 58.2% of our trade receivables, respectively. We made allowance for impairment of trade receivables of RMB3.4 million, RMB3.1 million and RMB7.3 million as of December 31, 2017, 2018 and 2019, respectively. See “Financial Information — Discussion of Certain Key Balance Sheet Items — Trade Receivables.” Our business, financial condition and results of operations may be materially and adversely affected if significant trade receivables are not settled on time, or at all.

Our convertible redeemable preferred shares and our financial assets at fair value through profit or loss are subject to fair value changes, and there are inherent uncertainties associated with their fair value measurement.

We had fair value changes on convertible redeemable preferred shares of RMB383.6 million, RMB381.3 million and RMB212.5 million in 2017, 2018 and 2019, respectively. We had net gains on financial assets at fair value through profit or loss of RMB25.0 million, RMB31.7 million and RMB26.6 million in 2017, 2018, and 2019, respectively. The fair value of these instruments are determined using a valuation model based on assumptions that are not supported by observable market prices or rates. See Note 3.3 to the Accountant’s Report in Appendix I to this prospectus. Accordingly, such determination requires us to make significant estimates, which may be subject to material changes, and therefore inherently involves a certain degree of uncertainty. Given the inherent uncertainties associated with such measurement, the fair value of these instruments is subject to various variations, adjustments and alterations, as well as market conditions and other factors. Any material and adverse changes in the value of our convertible redeemable preferred shares and our financial assets at fair value through profit or loss and may materially and adversely affect our business, financial condition and results of operations.

We have limited control over third-party studios which provide outsourced music production and graphic design services to us, and the quality of their work product may adversely affect our schedule of game launch and the quality of our games.

We outsource certain tasks, including music production and graphic design, to third-party studios to optimize our resources and achieve greater cost efficiencies in the development process. See “Business — Our Business Processes — Game Development — Development Outsourcing.” We incurred outsourced technical service expenses of RMB35.9 million, RMB33.8 million and RMB30.6 million in

RISK FACTORS

2017, 2018 and 2019, respectively. However, we have limited control over such third-party outsourcing partners and if their work products' quality fails to pass our stringent quality control tests, our game launch may be delayed and we may incur additional costs to ensure the quality of our games. The situation may get worse when our needs for such third-party studios expand to support our business growth. All of the above situations may materially and adversely affect our reputation and business.

Our performance during the Track Record Period may not be indicative of our future prospects.

We reached a broad international audience after we commenced our global operations in late 2015. Our revenue generated from the mainland China market amounted to RMB1,076.2 million, RMB678.9 million and RMB723.1 million in 2017, 2018 and 2019, respectively, and revenue generated from markets outside of mainland China amounted to RMB233.0 million, RMB191.2 million and RMB344.1 million in 2017, 2018 and 2019, respectively. Our history of operations and track record performance, particularly in markets outside of mainland China, is limited. We cannot assure you that our games can generate sustainable revenue, and our historical performance should not be considered indicative of our future performance.

Although we generated a net profit for the year of 2019, we incurred net losses in both 2017 and 2018, and we may not be able to achieve profitability in the future.

We experienced net losses of RMB159.4 million and RMB75.4 million in 2017 and 2018, respectively. Although we have generated a net profit of RMB120.4 million in 2019, we cannot assure you that we will be able to continue to generate profits in the future. Our profitability depends on our ability to grow our business and increase our revenue and our ability to control our costs and operating expenses. Our revenue fluctuated during the Track Record Period and may not grow at a sustainable rate in the future. In addition, we expect our costs and other operating expenses to increase as we expand our business. If our costs and operating expenses continue to increase without a commensurate increase in our revenue, we may not be able to achieve profitability in the future.

We may grant employee share options, RSUs and other share-based compensation, which may materially and adversely affect our results of operations and the trading price of our Shares in the future.

We may grant employee share options, RSUs and other share-based compensation from time to time to our Directors, senior management and employees to recognize their contribution and to attract and retain key personnel. We plan to adopt a series of employee incentive schemes in 2020. Also, our Company adopted a RSU Scheme on April 1, 2020. The fair value of the services received in exchange for the grant of these share options and RSUs will be recognized as share-based compensation expenses over the vesting period, which will have a material adverse effect on our profits. Moreover, exercise of the share options we have granted or plan to grant will increase the number of our Shares in circulation. Any actual or perceived sales of additional Shares acquired upon the exercise of the share options we have granted or plan to grant may materially and adversely affect the trading price of our Shares.

RISK FACTORS

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

We maintain various insurance policies to safeguard against risks and unexpected events for our employees and properties. However, insurance companies in China generally do not offer as extensive an array of insurance products as insurance companies do in countries with more developed economies. In line with general industry practice in China, we have not purchased any insurance to cover our main assets and business, including our network infrastructure, information technology and intellectual property. Furthermore, we do not maintain business interruption insurance or key man life insurance. 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 and we have no insurance to cover such losses. As a result, our business, financial condition and results of operations could be materially and adversely affected.

We may enter into strategic acquisitions, licensing arrangements and partnerships which may not be successful and may have a material adverse effect on our business.

Although we did not have acquisition plans as of the Latest Practicable Date, we may in the future acquire content providers or third-party platforms that can enhance our game-related sourcing, development and operational capabilities. Such acquisitions may require us to develop expertise in new areas, manage new business relationships and attract new types of game players. We may also experience difficulties integrating any such investments, acquisitions or partnerships into our existing business and operations, which may require significant attention from our management and result in a diversion of resources from our existing business. Besides, acquired assets or businesses may not generate financial results as expected and could result in the use of substantial amounts of cash, potentially dilutive issuances of equity securities, the occurrence of significant goodwill impairment charges, amortization expenses for other intangible assets and exposure to potential unknown liabilities of the acquired business.

Our Controlling Shareholders have substantial influence over our Company and their interests may not be aligned with the interests of our other Shareholders.

Our Controlling Shareholders have substantial influence over our business, including matters relating to our management, policies and decisions regarding mergers, expansion plans, consolidations and sales of all or substantially all of our assets, election of Directors and other significant corporate actions. Immediately following the completion of the Global Offering and assuming the Over-allotment Option is not exercised, our Controlling Shareholders will be interested in 35.35% of the issued share capital of our Company. This concentration of ownership may discourage, delay or prevent a change in control of our Company, which could deprive other Shareholders of an opportunity to receive a premium for their Shares as part of a sale of our Company and might reduce the price of our Shares. These events may occur even if they are opposed by our other Shareholders. In addition, the interests of our Controlling Shareholders may differ from the interests of our other Shareholders. It is possible that our Controlling Shareholders may exercise their substantial influence over us and cause us to enter into transactions or take, or fail to take, actions or make decisions that conflict with the best interests of our other Shareholders.

RISK FACTORS

Our business, financial condition and results of operations may be materially and adversely affected by epidemics, natural disasters, acts of war or terrorism or any other catastrophes.

Areas or regions where we operate may be exposed to the outbreak of epidemics including the COVID-19, swine influenza, avian influenza, middle east respiratory syndrome (MERS-CoV) and severe acute respiratory syndrome (SARS-CoV). Such epidemic outbreak may affect us in various ways. For example, peoples' willingness of and demand for entertainment consumption may be affected. Also, availability of resources may be limited. Besides, government authorities may adopt certain hygiene measures, including quarantines or closures of our offices, travel and transportation restrictions and import and export restrictions. Any of the above circumstances may materially slow down the regional or national economic development in areas where we operate and may have a material and adverse effect on our business operations.

Specifically, we are not able to predict the impact of the recent COVID-19 outbreak due to uncertainties relating to the geographic spread of the virus, the severity of the disease and the duration of the outbreak. To deal with the COVID-19 outbreak, the PRC government imposed measures including the varied degrees of travel restrictions across the PRC, adjustment of workday and business hour arrangement and quarantine arrangement for affected individuals. Delayed resumption of business operations in the first quarter of 2020 resulted by these measures may negatively impact our business operations. For example, there may be disruption or delay of services provided by our suppliers including our game development outsourcing partners, which may delay the launch of our games and we may incur additional costs to engage alternatives. Besides, the COVID-19 is spreading throughout the PRC and globally and expected to adversely affect economic development. If national or global economic downturn results from the outbreak, such downturn may have a negative impact on our strategy and aim of introducing excellent games to more people across different regions and our business, financial condition and results of operations may be materially and adversely affected.

Similarly, natural disasters, acts of war, terrorist activity, threats of war or terrorist activity, social unrest and the corresponding heightened travel security measures instituted in response, as well as geopolitical uncertainty and international conflict and tension, may affect regional and national economic development in areas where we operate and our business, financial condition and results of operations may be materially and adversely affected.

In addition, we may not be adequately prepared in terms of contingency planning or have recovery measures in place to deal with a major incident or crisis. As a result, our operational continuity and our reputation may be materially and adversely affected.

Our leasehold interest may be defective and our legal right to lease certain properties may be challenged, which could cause disruption to our business.

Under the PRC laws and regulations, all leases are required to be registered with the local authorities. Although failure to do so does not in itself invalidate the leases, lessees may not be able to defend these leases against bona fide third parties and may also be exposed to potential fines if they fail to rectify such non-compliance within the prescribed time frame after receiving notice from the relevant PRC government authorities. As of the Latest Practicable Date, eight of our leased properties under lease agreements in the PRC have not been registered as required, which may expose us to potential fines ranging from RMB1,000 to RMB10,000 for each unregistered lease, at the discretion of the relevant authority.

RISK FACTORS

Also, if there are any defects in our leasehold interest, we may face challenges from third parties, resulting in difficulties to use these properties and we may therefore incur additional expenses.

RISKS RELATING TO OUR CONTRACTUAL ARRANGEMENTS

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

We are a company incorporated under the laws of the Cayman Islands, and Beijing Fantasy Mermaid, which is one of our PRC subsidiaries, is considered a foreign-invested enterprise. To comply with PRC laws and regulations, we operate Relevant Business (as defined in “Contractual Arrangements”) in the PRC through our Consolidated Affiliated Entities, based on the Contractual Arrangements entered into by, among others, Tianjin Loong, Beijing Fantasy Mermaid and the Registered Shareholders. Such Contractual Arrangements enable us to: (i) be the exclusive provider of business support, management and consultation services in exchange for a fee; (ii) receive all of the economic benefits after offsetting the prior-year loss (if any), operating costs, expenses, taxes and other statutory contributions and bear all the risks in relation to the business operations of the Consolidated Affiliated Entities; (iii) have an irrevocable and exclusive right to purchase, or to designate one or more persons to purchase, from the Registered Shareholders all or any part of their equity interests in Tianjin Loong at any time and from time to time in our absolute discretion to the extent permitted by PRC laws; (iv) have an irrevocable and exclusive right to purchase, or to designate one or more persons to purchase from Tianjin Loong all or any part of its assets at any time and from time to time in our absolute discretion to the extent permitted by PRC laws; (v) appoint us, any directors authorized by us (except the shareholders of Tianjin Loong) or his/her successors, or a liquidator replacing the director as our exclusive agent and attorney to act on our behalf on all matters concerning Tianjin Loong and to exercise all of the rights as a registered shareholder of Tianjin Loong in accordance with PRC laws and the articles of Tianjin Loong; and (vi) pledge as first charge all of the equity interests in Tianjin Loong to us as collateral security for any and all of the guaranteed debt under the Contractual Arrangements and to secure performance of the obligations under the Contractual Arrangements. The Contractual Arrangements allow the results of operations and assets and liabilities of Tianjin Loong and its subsidiaries to be consolidated into our results of operations and assets and liabilities under IFRS as if they were wholly owned subsidiaries of our Group. See “Contractual Arrangements — Our Contractual Arrangements.”

Our PRC Legal Adviser is of the opinion that (i) each of the agreements comprising the Contractual Arrangement do not violate the provisions of the articles of associations of Beijing Fantasy Mermaid and Tianjin Loong, respectively, (ii) except for certain clauses regarding the remedies that may be awarded by the arbitration tribunal and the power of courts of competent jurisdictions to grant interim remedies in support of the arbitration and liquidation arrangements concerning our Consolidated Affiliated Entities, and clauses on the formation of liquidation committee in the event of winding-up for Tianjin Loong, each of the agreements comprising the Contractual Arrangements, are valid, legally binding and enforceable against each party to such agreements in accordance with their terms, and (iii) the Contractual Arrangements do not fall within the circumstances of “concealing illegal intentions with a lawful form” under Article 52 of the PRC Contract Law (中華人民共和國合同法) pursuant to which the contracts would be determined to be invalid. However, there can be no assurance that the PRC

RISK FACTORS

government authorities will take a view in the future that is not contrary to or otherwise different from the opinion of our PRC Legal Adviser stated above, and there is also the possibility that the PRC government authorities may adopt new laws and regulations in the future which may invalidate the Contractual Arrangements. If the PRC government determines that we are in violation of PRC laws or regulations or lack the necessary permits or licenses to operate our business, the relevant PRC regulatory authorities, including but not limited to the MOFCOM, the MIIT and the NAPP, would have broad discretion in dealing with such violations or failures, including, but not limited to:

- revoking our business and operating licenses;
- discontinuing or restricting our operations;
- imposing fines or confiscating any of our income that they deem to have been obtained through illegal operations;
- imposing conditions or requirements with which we or our PRC Operating Entities and our Consolidated Affiliated Entities may not be able to comply;
- requiring us or our PRC Operating Entities and our Consolidated Affiliated Entities to restructure the relevant ownership structure or operations;
- restricting or prohibiting our use of the proceeds from the initial public offering or other of our financing activities to finance the business and operations of our Consolidated Affiliated Entities and their respective subsidiaries; or
- taking other regulatory or enforcement actions that could be harmful to our business.

Any of these actions could cause significant disruption to our business operations, and may materially and adversely affect our business, financial condition and results of operations. In addition, it is unclear what impact the PRC government actions would have on us and on our ability to consolidate the financial results of Tianjin Loong and its subsidiaries in our consolidated financial statements, if the PRC governmental authorities find our legal structure and Contractual Arrangements to be in violation of PRC laws, rules and regulations. If any of these penalties result in our inability to direct the activities of Tianjin Loong and its subsidiaries that most significantly impact their economic performance and/or our failure to receive the economic benefits from Tianjin Loong and its subsidiaries, we may not be able to consolidate Tianjin Loong and its subsidiaries into our consolidated financial statements in accordance with IFRS.

Our contractual arrangements may not be as effective in providing operational control as direct ownership. Tianjin Loong or their shareholders may fail to perform their obligations under our contractual arrangements.

Due to the PRC restrictions or prohibitions on foreign ownership of certain businesses in the PRC, we operate Relevant Business in the PRC through our Consolidated Affiliated Entities, in which we have no ownership interest. We rely on Contractual Arrangements with Tianjin Loong or its shareholders to control and operate their business. These Contractual Arrangements are intended to provide us with effective control over our Consolidated Affiliated Entities and allow us to obtain economic benefits from them. See “Contractual Arrangements.”

RISK FACTORS

However, the Contractual Arrangements may not be as effective in providing control over Tianjin Loong as direct ownership. If Tianjin Loong or its shareholders fail to perform their respective obligations under the Contractual Arrangements, we may incur substantial costs and expend substantial resources to enforce our rights. All of the Contractual Arrangements are governed by and interpreted in accordance with PRC laws and disputes arising from the Contractual Arrangements will be resolved through arbitration or litigation in China. However, there are very few precedents and little official guidance as to how contractual arrangements in the context of a variable interest entity should be interpreted or enforced under PRC laws. There remain significant uncertainties regarding the outcome of arbitration or litigation. Such uncertainties could limit our ability to enforce these Contractual Arrangements. In the event we are unable to enforce the Contractual Arrangements or we experience significant delays or other obstacles in the process of enforcing the Contractual Arrangements, we may not be able to exert effective control over our Consolidated Affiliated Entities and may lose control over the assets owned by our Consolidated Affiliated Entities. As a result, we may be unable to consolidate Consolidated Affiliated Entities in our consolidated financial statements, and our ability to conduct our business may be materially and adversely affected.

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

We do not have priority pledges and liens against the assets of our Consolidated Affiliated Entities. If Tianjin Loong were to undergo an involuntary liquidation proceeding, third-party creditors may claim rights to some or all of its assets and we may not have priority against such third-party creditors on the assets of our Consolidated Affiliated Entities. If our Consolidated Affiliated Entities liquidate, we may take part in the liquidation procedures as a general creditor under the PRC Enterprise Bankruptcy Law and recover any outstanding liabilities owed by Tianjin Loong to Beijing Fantasy Mermaid under the applicable service agreement.

Under the Contractual Arrangements, the Registered Shareholders covenanted that they shall not sell, transfer, pledge or dispose of in any other manner the legal or beneficial interest in Tianjin Loong, or allow the encumbrance thereon of any security interest, except for the Equity Pledge Agreement, without the written consent of Beijing Fantasy Mermaid. In addition, the Registered Shareholders covenanted that they shall not request Tianjin Loong to in any manner distribute profit or dividends, raise such relevant shareholders' resolution or vote in favor of any such relevant shareholders' resolution without the prior written consent of Beijing Fantasy Mermaid. In the event that they receive any income, profit distribution or dividend, except as otherwise determined by us, they shall promptly transfer or pay, as part of the services fee under the Exclusive Business Cooperation Agreement, such income, profit distribution or dividend to us or any other person designated by us to the extent permitted under applicable PRC laws. In the event that the Registered Shareholders breach the relevant covenants, we may need to resort to legal proceedings to enforce the terms of the Contractual Arrangements. Any such legal proceeding may be costly and may divert our management's time and attention away from the operation of our business, and the outcome of such legal proceeding is uncertain.

The equity pledge under the Equity Pledge Agreement was completed in accordance with the PRC laws and regulations on March 18, 2020 and each of the Registered Shareholders represent and warrant to Beijing Fantasy Mermaid that it shall procure or use its reasonable efforts to procure any successors of the Registered Shareholders to comply with the same undertakings as if they were parties to the Equity

RISK FACTORS

Pledge Agreement. However, given that in the event of any bankruptcy or liquidation of the Registered Shareholders, the successor, liquidator, and any other person/entity which may obtain the equity interest or relevant rights in Tianjin Loong directly or indirectly as a result of any of the above events (together, “Relevant Persons”) is not a signing party to the Equity Pledge Agreement, the Company may need to re-sign the Equity Pledge Agreement with all relevant parties (including Relevant Persons) and re-file a registration of the equity pledge so as to enforce the Equity Pledge Agreement. The Company cannot assure that the Relevant Persons would comply with the same undertakings as if they were parties to the Equity Pledge Agreement, failing which may cause practical difficulties in enforcing the Equity Pledge Agreement by the Company.

The shareholders and directors of Tianjin Loong may have conflicts of interest with us, which may materially and adversely affect our business.

The shareholders and directors of Tianjin Loong may have conflicts of interest with us. We rely on these individuals to abide by the laws of the Cayman Islands which impose fiduciary duties upon directors and officers of our Company. Such duties include the duty to act with good faith in what they consider to be in the best interest of our Company as a whole and not to place themselves in a position in which there is a conflict between their duties to our Company and their personal interests. On the other hand, PRC laws also provide that a director or a senior manager owes a loyalty and fiduciary duty to the company in which he or she holds such position. We cannot assure you that when conflicts arise, shareholders or directors of Tianjin Loong will act in the best interest of our Company or that conflicts will be resolved in our favor. These individuals may breach or cause Tianjin Loong to breach the existing Contractual Arrangements. If we cannot resolve any conflicts of interest or disputes between us and these shareholders or directors, we would have to rely on legal proceedings, which may be expensive, time-consuming and disruptive to our operations. There is also substantial uncertainty as to the outcome of any such legal proceedings.

If we exercise the option to acquire equity ownership and assets of our Consolidated Affiliated Entities, the ownership or asset transfer may subject us to certain limitations and substantial costs.

Pursuant to the Regulations for the Administration of Foreign-Invested Telecommunications Enterprises (外商投資電信企業管理規定) (the “FITE Regulations”) promulgated by the State Council, foreign investors are not allowed to hold more than 50% of the equity interests of any company providing value-added telecommunications services. In addition, the main 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”). The MIIT then issued a guidance memorandum on the application requirement for establishing foreign-invested value-added telecommunications enterprises in the PRC, but this guidance memorandum does not purport to provide an exhaustive list on the application requirement. Currently none of the applicable PRC laws, regulations or rules provides clear guidance on or interpretation of the Qualification Requirements and the main foreign investor’s fulfillment of the Qualification Requirements remains ultimately subject to substantive examination of the MIIT. Although we have taken measures to meet the Qualification Requirements, we still face the risk of not satisfying them promptly. If the PRC laws allow foreign investors to invest in value-added telecommunications enterprises in the PRC in the future, we may be unable to unwind the Contractual Arrangements before we are able to comply with the Qualification Requirements, or if we attempt to unwind the Contractual

RISK FACTORS

Arrangements before we are able to comply with the Qualification Requirements we may be ineligible to operate our value-added telecommunication enterprises and may be forced to suspend their operations, which could materially and adversely affect our business, financial condition and results of operations.

Pursuant to the Contractual Arrangements, Beijing Fantasy Mermaid or its designated person(s) has the irrevocable and exclusive right to purchase all or any part of the equity interests in Tianjin Loong from its shareholders at any time and from time to time in the absolute discretion of Beijing Fantasy Mermaid to the extent permitted by PRC laws. The consideration shall be nil or nominal price or the lowest price as permitted under applicable PRC laws.

The equity transfer may be subject to the approvals from, or filings with, relevant government authorities, such as the MOFCOM, the MIIT, the SAIC and/or their local competent counterparts. In addition, the equity transfer price may be subject to review and tax adjustment by the relevant tax authorities. The equity transfer price to be received by Tianjin Loong under the Contractual Arrangements may also be subject to enterprise income tax, and such tax amounts could be substantial.

Substantial uncertainties exist with respect to the interpretation and implementation of the 2019 FIL and how it may impact the viability of our current corporate structure, corporate governance and business operations.

On March 15, 2019, the 2019 FIL was formally passed by the second session of the 13th National People's Congress and became effective on January 1, 2020. The 2019 FIL is formulated to further expand opening-up, vigorously promote foreign investment and protect the legitimate rights and interests of foreign investors and the 2019 FIL replaced the Sino-Foreign Equity Joint Venture Enterprise Law of the PRC (中華人民共和國中外合資經營企業法), the Sino-Foreign Cooperative Joint Venture Enterprise Law of the PRC (中華人民共和國中外合作經營企業法) and the Wholly Foreign-Owned Enterprises Law of the PRC (中華人民共和國外資企業法) to become the legal foundation for foreign investment in the PRC. On December 26, 2019, the State Council promulgated the Implementing Regulations of the Foreign Investment Law of the PRC (中華人民共和國外商投資法實施條例) (the “**Implementing Regulations**”), which took effect on January 1, 2020, reiterated and detailed the 2019 FIL. Under the 2019 FIL, although contractual arrangements are not specified as foreign investments, it is stipulated that foreign investors investing through any other methods stipulated under laws, administrative regulations or provisions of the State Council may be considered as a form of foreign investment. Therefore, there are possibilities that future laws, administrative regulations or provisions prescribed by the State Council may regard contractual arrangements as a form of foreign investment, at which time it will be uncertain whether our Contractual Arrangements will be recognized as foreign investment, whether our Contractual Arrangements will be deemed to be in violation of the foreign investment access requirements and how our Contractual Arrangements will be handled.

Given that the relevant government authorities have broad discretion in interpreting the foreign investment laws, in the worst case scenario, our Contractual Arrangements may be regarded by the relevant government authorities as invalid and illegal, and the Relevant Business may be ordered by the relevant government authorities to be discontinued under the existing structure and may not be sustainable. As a result, we will not be able to operate the Relevant Business through the Contractual Arrangements and will lose our rights to receive the economic benefits of Beijing Fantasy Mermaid and our Consolidated Affiliated Entities under the Contractual Arrangements, and the financial results of our Consolidated Affiliated Entities will no longer be consolidated into ours, and we will have to

RISK FACTORS

derecognize their assets and liabilities according to the relevant accounting standards. In such case, the Hong Kong Stock Exchange may also consider our Company to be no longer suitable for listing on the Hong Kong Stock Exchange. For details of the 2019 FIL and the Implementing Regulations and the 2019 Negative List and its potential impact on us, “Contractual Arrangements — Foreign Investment Law.”

Therefore, there remains substantial uncertainties with respect to the interpretation of the 2019 FIL and the Implementing Regulations and their impact to our Contractual Arrangements and our business, financial condition and result of operations.

Our contractual arrangements may be subject to scrutiny by the PRC tax authorities, and a finding that we owe additional taxes could substantially reduce our consolidated net income and the value of your investment.

Under PRC laws and regulations, arrangements and transactions among related parties may be subject to audit or challenge by the PRC tax authorities. We could face material and adverse tax consequences if the PRC tax authorities determine that the contractual arrangements among our PRC subsidiaries and our Consolidated Affiliated Entities do not represent an arms-length price and adjust our Consolidated Affiliated Entities’ income in the form of a transfer pricing adjustment. A transfer pricing adjustment could, among other things, result in a reduction, for PRC tax purposes, of expense deductions recorded by our Consolidated Affiliated Entities, which could in turn increase their tax liabilities. In addition, the PRC tax authorities may impose late payment fees and other penalties to our PRC variable interest entities for underpaid taxes. Our results of operations may be materially and adversely affected if our tax liabilities increase or if we are found to be subject to late payment fees or other penalties.

RISKS RELATING TO DOING BUSINESS IN THE PRC

Any regulatory changes in the approval and registration process of new online games by the PRC government may adversely affect our business.

As detailed in “Regulatory Overview — Regulations on Online Games — Online Game Publication,” the official launch of mobile games in the PRC is subject to game registration with the NAPP and issuance of game publication numbers by the NAPP. However, the NAPP at the national level suspended approval of game registration and issuance of publication numbers for online games since March 2018 and resumed to issue game publication numbers by batches periodically since December 2018. Beginning in December 2018, the NAPP at the national level started to approve new online games. As the regulatory authorities have received a large number of game registration applications which are to be reviewed, it may take some time for all of the existing game registration applications to complete the process and obtain game publication numbers. Therefore, there is great uncertainty as to when we will be able to complete game registrations and obtain the game publication numbers for our pipeline games under application and other pipeline games or we may not be able to complete game registrations and obtain game publication numbers at all, which could materially and adversely impact our ability to introduce new games, the timetable for us to launch new games and our business growth and prospects.

Further, the game registration process may be suspended, changed or affected by other changes in the regulatory environment in the future, which may materially and adversely affect our results of operations and financial condition. Moreover, according to the Notice of the General Office of the General Administration of Press, Publication, Radio, Film and Television on the Administration of Mobile Game

RISK FACTORS

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) issued by the SAPPRFT in May 2016, which became effective in July 2016 (the “**Mobile Game Notice**”), the upgraded works and new expansion packs of a mobile game of which the publication has been approved (which means that the story lines, task contents, map form, personal characters, role characteristics, and interactive functions, among others, have been significantly changed, and an additional name is used, i.e., a subtitle is added with the name of the game remaining unchanged, or a modifier is added before the name of the game or a digit is used after the name of the game to show the change of the version for promotion and publicity) shall be deemed as new works, and in accordance with the provisions of Mobile Game Notice, undergo corresponding approval formalities in accordance with their respective categories. We cannot assure you that regulators will not take a stricter view on updates and enhancements of games in the future, which may result in extra work and costs for us to file or renew applications for such updates and enhancements and may delay the launch of such updates and enhancements, which may materially and adversely affect our results of operations.

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

The PRC government has enacted laws and regulations governing internet access and the distribution of news and other contents, as well as products and services, through the internet. Certain types of information are not allowed to be disseminated through the internet, for example, the MIIT and other competent government authorities have promulgated regulations that prohibit games from being distributed through the internet if the games contain content that is found to, among other things, propagate obscenity, gambling or violence, instigate crimes, undermine public morality or the cultural traditions of China, or compromise state security or secrets. If any of our games is deemed to violate any such content restrictions, we would not be able to obtain or maintain the necessary government approval to continue such game offerings and/or could be subject to penalties, including confiscation of income, fines or suspension of business, which would materially and adversely affect our business, financial condition and results of operations. We may also be subject to potential liability for unlawful actions of our game players or for content we distribute that is deemed inappropriate. We may be required to delete content that violates PRC laws and report content that we suspect to be in violation of PRC laws, also we may incur significant costs in investigating and defending ourselves for claims or penalties caused by the improperly-disseminated information, and our business, financial condition, results of operations and prospects may be materially and adversely affected.

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

During the course of playing online games, game players may acquire and accumulate virtual assets, such as points and rewards, equipment and other features of their avatars. Such virtual assets can be important to game players and have monetary value. However, virtual assets may be lost for various reasons, for example, data loss caused by a delay of network service, a network crash or hacking activities. Under the General Provisions of the PRC Civil Law (中華人民共和國民法總則), effective in October 2017, data and virtual assets must be protected according to specific rules governing such matters. However, currently, there is no PRC law or regulation specifically governing virtual assets

RISK FACTORS

property rights, so certain general laws and regulations regarding civil rights may be applicable. Although PRC courts have issued a series of civil judgments of tort claims for virtual assets, it still remains uncertain as to who is the legal owner of virtual assets, how the ownership of virtual assets is protected by law, and whether a developer of mobile games would have any liability to game players or other interested parties in a dispute for the loss of virtual assets. When facing a loss of virtual assets, game players may sue us for damages, which may materially and adversely affect our reputation and business, financial condition and results of operations. During the Track Record Period, we have not been involved in any virtual assets related law suits. However, we cannot assure you that such law suits will not be brought against us in the future.

The PRC law regulating the playing time and players' age of online games may materially and adversely affect our business and operations.

In April 2007, several government authorities, including the GAPP and the MOE, jointly issued the Anti-addiction Notice, which is annexed to the Standards Regarding the Development of Anti-addiction System on Online Games (網絡游戲防沉迷系統開發標準) and the Proposal Regarding the Authentication of Real Names for Anti-addiction System on Online Games (網絡游戲防沉迷系統實名認證方案). According to the Anti-addiction Notice, an anti-addiction system monitoring the length of playing time and minimum age of online game players has been required to be installed in all existing online games since July 16, 2007, as well as in all online games to be operated in China. All of our mobile games offered in China are embedded with the anti-addiction system. The Anti-addiction Notice is followed by the Notice Regarding Launching Anti-addiction Real Name Authentication on Online Games (the “**Real Name Authentication Notice**”) (關於啟動網絡游戲防沉迷實名驗證工作的通知), which was jointly issued by the GAPP, the MOE and other government authorities and became effective in July 2011. According to the Real Name Authentication Notice, all the companies that operate online games must institute anti-addiction real-name authentication, including identifying registration information of their game players and timely reporting the identification information of the game players pursuant to the proceeding prescribed by government regulations, and putting the game players who are proved to provide false identification information into the anti-addiction system for that online game. Additionally, according to the Mobile Game Notice, which became effective in July 2016, mobile games are subject to the Real Name Authentication Notice unless the mobile game to be published, among other things, does not concern themes such as politics, military, nations and religions, belongs to the class of casual puzzle domestic mobile games without plots or with simple plots and is not authorized by overseas copyright owners.

On April 19, 2019, the updated Service Guidance for the Approval of Publishing Domestic Online Games was published on the official website of the SAPPRFT (the “**2019 Guidance**”). The 2019 Guidance specifies the necessary application documents to be submitted for applying for publishing domestic new online games, which include a detailed descriptive document for the specific operation mechanism of the anti-addiction compliance system (the “**Anti-addiction System Document**”). However, the 2019 Guidance further clarifies that the Anti-addiction System Document is not required for mobile online games and only certain related descriptions will satisfy the regulatory requirements.

On October 25, 2019, the NAPP issued the Notice on Preventing Minors from Indulging in Online Games which stipulates several requirements on the online game operation including the time slot and duration for playing online games by minors and provision of paid services to minors. See “Regulatory Overview — Anti-addiction System and Minor Protection.”

RISK FACTORS

We cannot assure you that our anti-addiction system will be regarded as sufficient by relevant government authorities in China. Failure to comply with the requirements under the foregoing notices may subject us to penalties, including, suspension or restriction of game operations by ourselves and rejection to or suspension of the applications for approval of our games in China.

Uncertainties in the interpretation and enforcement of PRC laws and regulations could limit the legal protections available to you and us.

The PRC legal system is based on written statutes. Unlike common law systems, it is a system in which legal cases have limited value as precedents. In the late 1970s, the PRC government began to promulgate a comprehensive system of laws and regulations governing economic matters in general. The overall effect of legislation over the past three decades has significantly increased the protections afforded to various forms of foreign or private-sector investment in China. Our subsidiaries are subject to various PRC laws and regulations generally applicable to companies in China. However, since these laws and regulations are relatively new and the PRC legal system continues to rapidly evolve, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involves uncertainties.

In particular, PRC laws and regulations concerning internet-related industries and the mobile game industry are developing and evolving. Although we have taken measures to comply with the laws and regulations that are applicable to our business operations and avoid conducting any non-compliant activities under the applicable laws and regulations, the PRC governmental authorities may promulgate new laws and regulations regulating internet-related industries and the mobile game industry in the future. We cannot assure you that our practice would not be deemed to violate any new PRC laws or regulations relating to internet-related industries and the mobile game industry. Moreover, developments in internet-related industries and the game industry may lead to changes in PRC laws, regulations and policies or in the interpretation and application of existing laws, regulations and policies that may restrict our business operations, which could materially and adversely affect our business and results of operations.

From time to time, we may have to resort to administrative and court proceedings to enforce our legal rights. However, since PRC administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection we enjoy than in more developed legal systems. Furthermore, the PRC legal system is based in part on government policies and internal rules (some of which are not published in a timely manner or at all) that may have retroactive effect. As a result, we may not be aware of our violation of these policies and rules until sometime after the violation. Such uncertainties, including uncertainty over the scope and effect of our contractual, property (including intellectual property) and procedural rights, and any failure to respond to changes in the regulatory environment in the PRC could materially and adversely affect our business and impede our ability to continue our operations.

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

Our business, prospects, financial condition and results of operations may be influenced to a significant degree by political, economic and social conditions in the PRC and by continued economic growth in the PRC as a whole.

RISK FACTORS

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

While the PRC economy has experienced significant growth over the past decades, growth has been uneven, both geographically and among various sectors of the economy. The PRC government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures may benefit the overall PRC economy, but may have a negative effect on us. For example, our financial condition and results of operations may be adversely affected by government control over capital investments or changes in tax regulations. In addition, in the past the PRC government has implemented certain measures, including interest rate increases, to control the pace of economic growth. These measures may cause decreased economic activity in the PRC and, since 2012, the PRC economy has slowed down. Any prolonged slowdown in the PRC economy may reduce the demand for our services and may materially and adversely affect our business and results of operations.

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 adopted by six PRC regulatory authorities in 2006 and amended in 2009, and some other regulations and rules concerning mergers and acquisitions established additional procedures and requirements that could make merger and acquisition activities by foreign investors more time consuming and complex, including requirements in some instances that the MOFCOM be notified in advance of any change-of-control transaction in which a foreign investor takes control of an affiliated PRC domestic enterprise. Moreover, the PRC Anti-Monopoly Law (中華人民共和國反壟斷法) requires that the anti-trust governmental authority shall be notified in advance of any concentration of undertaking if certain thresholds are triggered. In addition, the Notice of the General Office of the State Council on Establishing the Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (國務院辦公廳關於建立外國投資者併購境內企業安全審查制度的通知) issued by the MOFCOM and became effective in March 2011, specifies that mergers and acquisitions by foreign investors that raise “national defense and security” concerns and mergers and acquisitions through which foreign investors may acquire de facto control over domestic enterprises that raise “national security” concerns are subject to strict review by the MOFCOM, and the rules prohibit any activities attempting to bypass security review, including by structuring the transaction through a proxy or contractual control arrangement. In the future, we may grow our business by acquiring business from other game developers or game operators. 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, which could affect our ability to expand our business or maintain our market share.

RISK FACTORS

We may be classified as a “PRC resident enterprise” for PRC enterprise income tax purposes, which could result in unfavorable tax consequences to us and our shareholders and have a material adverse effect on our results of operations and the value of your investment.

Under the EIT Law and its implementation rules, an enterprise established outside of the PRC with a “de facto management body” within the PRC is considered a resident enterprise and will be subject to the enterprise income tax on its global income at the rate of 25%. The implementation rules define the term “de facto management body” as the body that exercises full and substantial control over and overall management of the business, production, personnel, accounts and properties of an enterprise. In April 2009, the SAT issued the Circular on Issues about the Determination of Chinese-Controlled Enterprises Registered Abroad as Resident Enterprises on the Basis of Their Body of Actual Management (關於境外註冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知) (the “Circular 82”), which provides certain specific criteria for determining whether the “de facto management body” of a PRC-controlled enterprise that is incorporated offshore is located in the PRC. Although this circular only applies to offshore enterprises controlled by PRC enterprises or PRC enterprise groups, not those controlled by PRC individuals or foreigners, the criteria set forth in the circular may reflect the SAT’s general position on how the “de facto management body” test should be applied in determining the tax resident status of all offshore enterprises. According to Circular 82, an offshore-incorporated enterprise controlled by a PRC enterprise or a PRC enterprise group will be regarded as a PRC tax resident by virtue of having its “de facto management body” in China and will be subject to PRC enterprise income tax on its global income only if all of the following conditions are met: (i) the primary location of the day-to-day operational management is in the PRC; (ii) decisions relating to the enterprise’s financial and human resource matters are made or are subject to approval by organizations or personnel in the PRC; (iii) the enterprise’s primary assets, accounting books and records, company seals and board and shareholder resolutions are located or maintained in the PRC; and (iv) at least 50% of voting board members or senior executives habitually reside in the PRC.

We believe none of our entities outside of the PRC is a PRC resident enterprise for PRC tax purposes. However, the tax resident status of an enterprise is subject to determination by the PRC tax authorities and uncertainties remain with respect to the interpretation of the term “de facto management body.” As substantially all of our management members are based in the PRC, it remains unclear how the tax residency rule will apply to our case. If the PRC tax authorities determine that we or any of our subsidiaries outside of the PRC is a PRC resident enterprise for PRC enterprise income tax purposes, then we or such subsidiary could be subject to PRC tax at a rate of 25% on its world-wide income, which could materially reduce our net income. In addition, we will also be subject to PRC enterprise income tax reporting obligations. Furthermore, if the PRC tax authorities determine that we are a PRC resident enterprise for enterprise income tax purposes, gains realized on the sale or other disposition of our ordinary Shares may be subject to PRC tax, at a rate of 10% in the case of non-PRC enterprises or 20% in the case of non-PRC individuals (in each case, subject to the provisions of any applicable tax treaty), if such gains are deemed to be from PRC sources. It is unclear whether non-PRC shareholders of our company would be able to claim the benefits of any tax treaties between their country of tax residence and the PRC in the event that we are treated as a PRC resident enterprise. Any such tax may reduce the returns on your investment in our Shares.

RISK FACTORS

Fluctuations in exchange rates could result in foreign currency exchange losses.

The value of RMB against HKD, USD and other currencies fluctuates is subject to changes resulting from the PRC government's policies and depends to a large extent on domestic and international economic and political developments as well as supply and demand in the local market. It is difficult to predict how market forces or government policies may impact the exchange rate between RMB and HKD, USD or other currencies in the future. In addition, the People's Bank of China regularly intervenes in the foreign exchange market to limit fluctuations in RMB exchange rates and achieve policy goals.

The proceeds from the Global Offering will be received in HKD. As a result, any appreciation of RMB against HKD may result in the decrease in the value of our proceeds from the Global Offering. Conversely, any depreciation of the RMB may adversely affect the value of, and any dividends payable on, the Shares in foreign currency. In addition, there are limited instruments available for us to reduce our foreign currency risk exposure at reasonable cost. Furthermore, we are also currently required to obtain the approval of the State Administration of Foreign Exchange, or SAFE, before converting significant sums of foreign currencies into RMB. All of these factors could materially and adversely affect our business, financial condition, results of operations and prospects, and could reduce the value of, and dividends payable on, the Shares in foreign currency terms.

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

The PRC government imposes controls on the convertibility of the RMB into foreign currencies and, in certain cases, the remittance of currency out of the PRC. We receive substantially all of our net revenue in RMB. Under our current corporate structure, our company in the Cayman Islands relies on dividend payments from our PRC subsidiaries to fund any cash and financing requirements we may have. Under existing PRC foreign exchange regulations, payments of current account items, such as profit distributions and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval from the SAFE by complying with certain procedural requirements. Therefore, our PRC subsidiaries are able to pay dividends in foreign currencies to us without prior approval from the SAFE, subject to the condition that the remittance of such dividends outside of the PRC complies with certain procedures under PRC foreign exchange regulation, such as the overseas investment registrations by the beneficial owners of our company who are PRC residents. However, approval from or registration with appropriate governmental authorities is required where RMB is to be converted into foreign currency and remitted out of the PRC to pay capital expenses such as the repayment of loans denominated in foreign currencies.

In light of the flood of capital outflows of the PRC in 2016 due to the weakening of RMB, the PRC government has imposed more restrictive foreign exchange policies and stepped up scrutiny of major outbound capital movement. More restrictions and substantial vetting processes are put in place by the SAFE to regulate cross-border transactions falling under the capital account. The PRC government may at its discretion further restrict access to foreign currencies in the future for current account transactions. If the foreign exchange control system prevents us from obtaining sufficient foreign currencies to satisfy our foreign currency demands, we may not be able to pay dividends in foreign currencies to our Shareholders.

RISK FACTORS

Inflation in the PRC could materially and adversely affect our profitability and growth.

Economic growth in the PRC has, in the past, been accompanied by periods of high inflation, and the PRC government has implemented various policies from time to time to control inflation, including imposing various corrective measures designed to restrict the availability of credit or regulate growth. High inflation in the future may cause the PRC government to once again impose controls on credit and/or price of commodities, or to take other actions, which could inhibit economic activities in the PRC. Any action on the part of the PRC government that seeks to control credit and/or price of commodities may adversely affect our business operations, causing negative impact on our profitability and growth.

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 subsidiaries, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

Any funds we transfer to our PRC subsidiaries, 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 the PRC, the increasing of capital contributions to our PRC subsidiaries is subject to the approval of or filing with the MOFCOM or its local branches and registration with other governmental authorities in the PRC. In addition, (i) any foreign loan procured by our PRC subsidiaries is required to be registered with the SAFE or its local branches, and (ii) our PRC subsidiaries may not procure loans which exceed a statutory limit. We may not be able to complete such recording or registrations on a timely basis, if at all, with respect to future capital contributions or foreign loans by us directly to our PRC subsidiaries. If we fail to complete such recording or registration, our ability to use the proceeds of this offering and to capitalize our PRC operations may be adversely affected, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

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

According to the Announcement of the SAT on Several Issues Concerning the Enterprise Income Tax on Indirect Property Transfer by Non-Resident Enterprises, or SAT Circular 7, promulgated by the SAT in February 2015 and further revised in October and December 2017, if a non-resident enterprise transfers the equity interests of a PRC resident enterprise indirectly through the transfer of the equity interests of an offshore holding company without a reasonable commercial purpose, the PRC tax authorities have the power to reassess the nature of the transaction and treat the indirect equity transfer as a direct transfer. As a result, the gain derived from such transfer, i.e., the transfer price minus the cost of equity, will be subject to PRC withholding tax at a rate of up to 10%. Under the terms of SAT Circular 7, a transfer that meets all of the following circumstances shall be directly deemed as having no reasonable commercial purposes: (i) over 75% of the value of the equity interests of the offshore holding company is directly or indirectly derived from PRC taxable properties; (ii) at any time during the year before the indirect transfer, over 90% of the total properties of the offshore holding company are investments within PRC territory, or in the year before the indirect transfer, over 90% of the offshore holding company's revenue is directly or indirectly derived from PRC territory; (iii) the function performed and

RISK FACTORS

risks assumed by the offshore holding company are insufficient to substantiate its corporate existence; and (iv) the foreign income tax imposed on the indirect transfer is lower than the PRC tax imposed on the direct transfer of the PRC taxable properties.

We face uncertainties as to the reporting and other implications of certain future transactions where PRC taxable assets are involved, such as offshore restructuring and sale of the shares in our offshore subsidiaries. We and our non-PRC resident investors may be subject to filing obligations in such transactions, under SAT Circular 7. For transfers of shares in our Company by investors that are non-PRC resident enterprises, our PRC subsidiaries may be requested to assist with the filing under SAT Circular 7. As a result, we may be required to expend valuable resources to comply with SAT Circular 7 or to request that the relevant transferors from whom we purchase taxable assets comply with these circulars, or to establish that our Company should not be taxed under these circumstances, which may have a material adverse effect on our business, financial condition and results of operations.

Failure to obtain any preferential tax treatments and governmental subsidies or the discontinuation, reduction request for return or delay of any of the preferential tax treatments that may be available to us in the future could materially and adversely affect our business, financial condition and results of operations.

We have been granted certain governmental subsidies and tax preferences. See “Financial Information — Critical Accounting Policies and Estimates — Income Tax Expense” and “Financial Information — Description of Major Components of Our Results of Operations — Other Income.” Nevertheless, the government agencies may decide to reduce, require us to return, eliminate or cancel such subsidies and tax preferences at any time. We cannot assure you of the continued availability of the government subsidies and tax preferences currently enjoyed by us. The discontinuation, reduction or delay of these government subsidies and preferential tax treatment could materially and adversely affect our business, financial condition and results of operations.

We may be subject to penalties, including restriction on our ability to inject capital into our PRC subsidiaries and our PRC subsidiaries’ ability to distribute profits to us, if our PRC resident shareholders or beneficial owners fail to comply with relevant PRC foreign exchange and other regulations.

The SAFE has promulgated several regulations that require PRC residents and entities to register with and obtain approval from local branches of the SAFE in connection with their direct or indirect offshore investment activities. The Circular 37 was promulgated by the SAFE in July 2014 which requires PRC residents or entities to register with the SAFE or its local branch in connection with their establishment or control of an offshore entity established for the purpose of overseas investment or financing. These regulations apply to our Shareholders who are PRC residents or entities and may apply to any offshore acquisitions that we make in the future.

Under these foreign exchange regulations, PRC residents or entities who make, or have previously made, prior to the implementation of these foreign exchange regulations, direct or indirect investments in offshore companies are required to register those investments. In addition, any PRC resident or entity who is a direct or indirect shareholder of an offshore company is required to update the previously filed registration with the local branch of the SAFE, with respect to that offshore company, to reflect any material change involving its round-trip investment, capital variation, such as an increase or decrease in capital, transfer or swap of shares, merger or division. If any PRC shareholder fails to make the required

RISK FACTORS

registration or update the previously filed registration, the PRC subsidiary of that offshore parent company may be restricted from distributing its profits and the proceeds from any reduction in capital, share transfer or liquidation to its offshore parent company, and the offshore parent company may also be restricted from injecting additional capital into its PRC subsidiary. Moreover, failure to comply with the various foreign exchange registration requirements described above could result in liability under PRC laws for evasion of applicable foreign exchange restrictions.

We have requested PRC residents and entities holding direct or indirect interests in our Company to our knowledge to make the necessary applications, filings and amendments as required by applicable foreign exchange regulations. However, we may not be fully informed of the identities of all our Shareholders or beneficial owners who are PRC residents and, therefore, we may not be able to identify all our Shareholders or beneficial owners who are PRC residents or entities to ensure their compliance with Circular 37 or other related regulations. In addition, we cannot provide any assurance that all of our Shareholders and beneficial owners who are PRC residents or entities will comply with our request to make, obtain or update any applicable registrations or comply with other requirements required by Circular 37 or other related regulations, including applicable NDRC and MOFCOM regulations, in a timely manner. Failure by any such Shareholders to comply with Circular 37 or other related regulations could subject us to fines or legal sanctions, restrict our investment activities in the PRC and overseas or cross-border investment activities, limit our subsidiaries' ability to make distributions, pay dividends or other payments to us or affect our ownership structure, which could materially and adversely affect our business and prospects.

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

In February 2012, the SAFE promulgated the Notices on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plans of Overseas Publicly Listed Companies, or SAFE Circular 7, replacing the previous rules issued by the SAFE in March 2007. Under SAFE Circular 7 and other relevant rules and regulations, PRC residents who participate in a stock incentive plan in an overseas publicly listed company are required to register with the SAFE or its local branches and complete certain other procedures. Participants of a stock incentive plan who are PRC residents must retain a qualified PRC agent, which could be a PRC subsidiary of the overseas publicly listed company or another qualified institution selected by the PRC subsidiary, to conduct the SAFE registration and other procedures with respect to the stock incentive plan on behalf of its participants. The participants must also retain an overseas entrusted institution to handle matters in connection with their exercise of stock options, the purchase and sale of corresponding stocks or interests and fund transfers. In addition, the PRC agent is required to amend the SAFE registration with respect to the stock incentive plan if there is any material change to the stock incentive plan, the PRC agent or the overseas entrusted institution or other material changes. In addition, the Circular 37 stipulates that PRC residents who participate in a share incentive plan of an overseas non-publicly listed special purpose company may register with the SAFE or its local branches before they exercise the share options. We and our PRC employees who have been granted share options and restricted shares are subject to these regulations. Failure of our PRC share option holders or restricted shareholders to complete their SAFE registrations may subject these PRC residents to fines of up to RMB300,000 for

RISK FACTORS

entities and up to RMB50,000 for individuals and legal sanctions and may also limit our ability to contribute additional capital into our PRC subsidiary, limit our PRC subsidiary's ability to distribute dividends to us, or otherwise materially adversely affect our business.

The SAT has also issued relevant rules and regulations concerning employee share incentives. Under these rules and regulations, our employees working in the PRC will be subject to PRC individual income tax upon exercise of the share options or grant of the restricted shares. Our PRC subsidiaries have obligations to file documents with respect to the granted share options or restricted shares with relevant tax authorities and to withhold individual income taxes for their employees upon exercise of the share options or grant of the restricted shares. If our employees fail to pay or we fail to withhold their individual income taxes according to relevant rules and regulations, we may face sanctions imposed by the competent governmental authorities.

Certain judgments obtained against us by our Shareholders may not be enforceable.

We are an exempted company incorporated in the Cayman Islands. Substantially all of our assets are located in China, which is also where all of our current operations are conducted. In addition, a majority of our current directors and officers are nationals and residents of China and substantially all of the assets of these persons are located in China. As a result, it may be difficult or impossible for you to effect service of process within Hong Kong upon us or these persons, or to bring an action in Hong Kong against us or against these individuals in the event that you believe that your rights have been infringed under the applicable securities laws or otherwise. In addition, because there are no clear statutory and judicial interpretations or guidance on a PRC court's jurisdiction over cases brought under foreign securities laws, it may be difficult for you to bring an original action against us or our PRC resident officers and directors in a PRC court based on the liability provisions of non-PRC securities laws. Even if you are successful in bringing an action of this kind, the laws of the Cayman Islands and of China may render you unable to enforce a judgment against our assets or the assets of our directors and officers.

RISKS RELATING TO THE GLOBAL OFFERING

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

Prior to the Global Offering, there has been no public market for our Shares. The initial issue price range for our Shares was the result of negotiations between our Company and the Sole Global Coordinator (for itself 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 listing of and permission to deal in our Shares on the Hong Kong Stock Exchange. There is no assurance that the Global Offering will result in the development of an active, liquid public trading market for our Shares.

The price at which our Shares will trade after the Global Offering will be determined by the marketplace, which may be influenced by many factors, some of which are beyond our control, including:

- our financial results;
- changes in securities analysts' estimates, if any, of our financial performance;

RISK FACTORS

- the history of, and the prospects for, us and the industry in which we compete;
- assessments of our management, our past and present operations, and the prospects for, and timing of, our future revenue and cost structures such as the views of independent research analysts, if any;
- the present state of our development;
- the valuation of publicly traded companies that are engaged in business activities similar to ours;
- general market sentiment regarding the entertainment industry and companies;
- changes in laws and regulations in China;
- our ability to compete effectively in the market; and
- political, economic, financial and social developments in China and worldwide.

In addition, the Hong Kong Stock Exchange has from time to time experienced significant price and volume fluctuations that have affected the market prices for the securities of companies quoted on the Hong Kong Stock Exchange. As a result, investors in our Shares may experience volatility in the market price of their Shares and a decrease in the value of their Shares regardless of our operating performance or prospects.

The actual or perceived sale or availability for sale of substantial amounts of our Shares, especially by our Directors, executive officers and Shareholders, could adversely affect the market price of our Shares.

Future sales of a substantial number of our Shares, especially by our Directors, executive officers and Shareholders, or the perception or anticipation of such sales, could adversely impact the market price of our Shares in Hong Kong and our ability to raise equity capital in the future at a time and price that we deem appropriate.

While we currently are not aware of any intention of Shareholders to dispose of significant amounts of their Shares, we cannot assure you that they will not dispose of any Shares they may own now or in the future.

The market price and trading volume of our Shares may decline if securities or industry analysts do not publish research reports about our business, or they adversely change their recommendations regarding our Shares.

The trading market for our Shares may be affected by research reports about us or our business published by the industry or securities analysts. The market price of our Shares would possibly decline if one or more analysts who cover us downgrade our Shares or publish negative opinions about us regardless of the accuracy of the information. We may lose visibility in the financial markets if one or more of these analysts cease coverage of us or fail to regularly publish reports on us, which could cause the market price or trading volume of our Shares to decline.

RISK FACTORS

Since there will be a gap of several days between pricing and trading of our Shares, holders of our Shares are subject to the risk that the price of our Shares could fall during the period before trading of our Shares begins.

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

We have significant discretion as to how we will use the net proceeds of the Global Offering, and you may not necessarily agree with how we use them.

Our management may spend the net proceeds from the Global Offering in ways you may not agree with or that do not yield a favorable return to our Shareholders. We plan to use the net proceeds from the Global Offering for purposes including funding our new businesses, research and development to enhance our technological and data analytical capabilities, funding our potential strategic alliances, investments and acquisitions and conducting marketing activities and strengthening our brand image. See “Future Plans and Use of Proceeds.” However, our management will have discretion as to the actual application of our net proceeds. You are entrusting your funds to our management, upon whose judgment you must depend, for the specific uses we will make of the net proceeds from this Global Offering.

We may not be able to distribute dividends to our Shareholders.

We cannot assure you when and in what form dividends will be paid on our Shares after the Global Offering. The declaration and distribution of dividends is at the discretion of the Board, and our ability to pay dividends or make other distributions to our Shareholders is subject to various factors, including our business and financial performance, capital and regulatory requirements and general business conditions. We may not be able to have sufficient or any profits to enable us to make dividend distributions to our Shareholders in the future, even if our financial statements indicate that our operations have been profitable. As a result of the above, we cannot assure you that we will make can make dividend payments on our Shares in the future. See “Financial Information — Dividend.”

Waivers have been granted from compliance with certain requirements of the Listing Rules. Shareholders will not have the benefit of the Listing Rules that are so waived. These waivers could be revoked, exposing us and our Shareholders to additional legal and compliance obligations.

We have applied for, and the Hong Kong Stock Exchange and SFC has granted to us, a number of waivers from strict compliance with the Listing Rules. See “Waivers from Strict Compliance with the Listing Rules.” There is no assurance that the Hong Kong Stock Exchange or SFC will not revoke any of these waivers granted or impose certain conditions on any of these waivers. If any of these waivers were to be revoked or to be subject to certain conditions, we may be subject to additional compliance obligations, incur additional compliance costs and face uncertainties arising from issues of multi-jurisdictional compliance, all of which could materially and adversely affect us and our Shareholders.

RISK FACTORS

There can be no assurance of the accuracy or completeness of certain facts, forecasts and other statistics obtained from various publicly available official sources and various independent third-party sources, including the industry expert reports, contained in this document.

This document, particularly the sections headed “Business” and “Industry Overview,” contains information and statistics relating to the entertainment market. Such information and statistics have been derived from a third-party report commissioned by us and publicly available sources. We believe that the sources of the information are appropriate sources for such information, and we have taken reasonable care in extracting and reproducing such information. However, we cannot guarantee the quality or reliability of such source materials. The information has not been independently verified by us, the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters or any other party involved in the Global Offering, and no representation is given as to its accuracy. Collection methods of such information may be flawed or ineffective, or there may be discrepancies between published information and market practice, which may result in the statistics included in this document being inaccurate or not comparable to statistics produced for other economies. You should therefore not place undue reliance on such information. In addition, we cannot assure you that such information is stated or compiled on the same basis or with the same degree of accuracy as similar statistics presented elsewhere. You should consider carefully the importance placed on such information or statistics.

You should read the entire document carefully and we strongly caution you not to place any reliance on any information contained in press articles or other media regarding us or the Global Offering.

There may be, subsequent to the date of this prospectus but prior to the completion of the Global Offering, press and media coverage regarding us and the Global Offering, which contains, among other things, certain financial information, projections, valuations and other forward-looking information about us and the Global Offering. We have not authorized the disclosure of any such information in the press or other media and do not accept responsibility for the accuracy or completeness of such press articles or other media coverage. We make no representation as to the appropriateness, accuracy, completeness or reliability of any of the projections, valuations or other forward-looking information about us. To the extent such statements are inconsistent with, or conflict with, the information contained in this prospectus, we disclaim responsibility for them. Accordingly, prospective investors are cautioned to make their investment decisions on the basis of the information contained in this prospectus only and should not rely on any other information.

You should rely solely upon the information contained in this prospectus, the Application Forms and any formal announcements made by us in Hong Kong in making your investment decision regarding our Shares. We do not accept any responsibility for the accuracy or completeness of any information reported by the press or other media, nor the fairness or appropriateness of any forecasts, views or opinions expressed by the press or other media regarding our Shares, the Global Offering or us. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such data or publication. Accordingly, prospective investors should not rely on any such information, reports or publications in making their decisions as to whether to invest in our Global Offering. By applying to purchase our Shares in the Global Offering, you will be deemed to have agreed that you will not rely on any information other than that contained in this prospectus and the Application Forms.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

In preparation for the Global Offering, our Company has sought the following waivers from strict compliance with the relevant provisions of the Listing Rules.

MANAGEMENT PRESENCE IN HONG KONG

Rule 8.12 of the Listing Rules provides that a new applicant applying for a primary listing on the Hong Kong Stock Exchange must have a sufficient management presence in Hong Kong. This normally means that at least two of its executive directors must be ordinarily resident in Hong Kong.

Since our Company's principal business operations are primarily based in the PRC and will continue to be based in the PRC, our executive Directors and senior management members spend the majority of their time supervising our Company's principal business operations in the PRC and do not ordinarily reside in Hong Kong. We consider that it would be more efficient and effective for our executive Directors and our senior management members being based in the PRC to supervise and manage our daily business operations.

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

- (a) we have appointed two authorized representatives pursuant to Rule 3.05 of the Listing Rules, who will act as our principal channel of communication with the Hong Kong Stock Exchange. The two appointed authorized representatives are Mr. Li Qing and Ms. Fok Po Yi, who will be readily contactable by the Hong Kong Stock Exchange and can meet with the Hong Kong Stock Exchange on reasonable notice. Their contact details (including office and mobile phone numbers, email addresses, correspondence address and facsimile numbers (if available)) have been provided to the Hong Kong Stock Exchange;
- (b) our Company has provided the contact details of our Directors (including their respective office and mobile phone numbers, email addresses and facsimile numbers) to the authorized representatives and the Hong Kong Stock Exchange. Our authorized representatives have means for contacting all Directors promptly at all times as and when the Hong Kong Stock Exchange wishes to contact the Directors for any matters. Each of our Directors either possesses, or can apply for, valid travel documents to visit Hong Kong in order to meet with the Hong Kong Stock Exchange within a reasonable period upon the Hong Kong Stock Exchange's request;
- (c) our Company has, in accordance with Rule 3A.19 of the Listing Rules, also appointed Red Solar Capital Limited as our compliance adviser, who will act as an additional channel of communication with the Hong Kong Stock Exchange. The compliance adviser will advise on-going compliance requirements and other issues arising under the Listing Rules and other applicable laws and regulations in Hong Kong for a period commencing on the Listing Date at least until the date on which our Company complies with Rule 13.46 of the Listing Rules in respect of our Company's financial results for the first full financial year after the Listing Date. Our Company will inform the Hong Kong Stock Exchange promptly of any changes of our compliance adviser; and

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

- (d) our Company will appoint other professional advisers (including legal advisers and accountants) to advise our Company on ongoing compliance requirements and other issues arising under the Listing Rules and other applicable laws and regulations in Hong Kong after the Listing.

JOINT COMPANY SECRETARY

Pursuant to Rules 3.28 and 8.17 of the Listing Rules, the company secretary of our Company must be a person who has the requisite academic or professional qualifications or relevant experience is, in the opinion of the Hong Kong Stock Exchange, capable of discharging the functions of a company secretary. The Hong Kong Stock Exchange considers the following academic or professional qualifications to be acceptable:

- (a) a member of The Hong Kong Institute of Chartered Secretaries;
- (b) a solicitor or barrister as defined in the Legal Practitioners Ordinance (Chapter 159 of the Laws of Hong Kong); or
- (c) a certified public accountant as defined in the Professional Accountants Ordinance (Chapter 50 of the Laws of Hong Kong).

We have appointed Ms. Hao Lili (“**Ms. Hao**”) and Ms. Fok Po Yi (“**Ms. Fok**”) as our joint company secretaries. While our Directors consider that Ms. Hao is capable of discharging her duty as a company secretary of our Company by virtue of her academic background and legal experience, she does not possess the specified qualifications required by Rule 3.28 of the Listing Rules. Therefore, our Company has appointed Ms. Fok, who possesses such specified qualifications, to be a joint company secretary of our Company. Ms. Fok will work closely with Ms. Hao to jointly discharge duties and responsibilities as joint company secretaries and assist Ms. Hao to acquire the relevant experience as required under Rule 3.28 of the Listing Rules.

Accordingly, we have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted, a waiver under and in respect of Rules 3.28 and 8.17 of the Listing Rules. The waiver is valid for an initial period of three years commencing from the Listing Date. In addition, Ms. Hao will comply with the annual professional training requirement under Rule 3.29 of the Listing Rules and will enhance her knowledge of the Listing Rules during the three-year period from the Listing Date. We will further ensure that Ms. Hao has access to the relevant training and support that would enhance her understanding of the Listing Rules and the duties of a company secretary of an issuer listed on the Hong Kong Stock Exchange. Before the end of the three-year period, we will liaise with the Hong Kong Stock Exchange to enable it to assess whether Ms. Hao, having had the benefit of Ms. Fok’s assistance for three years, will have acquired the relevant experience within the meaning of Rule 3.28 of the Listing Rules so that a further waiver will not be necessary.

See “Directors and Senior Management” for further information regarding the qualifications of Ms. Hao and Ms. Fok.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

We have entered into, and are expected to continue, certain transactions which will constitute continuing connected transactions of our Company under Chapter 14A of the Listing Rules following the completion of the Global Offering. Accordingly, we have applied for, and the Hong Kong Stock Exchange has granted, waivers from strict compliance with the requirements under Chapter 14A of the Listing Rules in relation to certain continuing connected transactions between us and certain connected persons. See “Contractual Arrangements” and “Connected Transactions.”

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus includes particulars given in compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purposes of giving information to the public about us. Our Directors collectively and individually accept full responsibility for the accuracy and completeness of the information contained in this prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and that there are no other matters the omission of which would make any statement herein or this prospectus misleading.

INFORMATION ON THE GLOBAL OFFERING

The 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 subject to the conditions set out herein and therein. No person is authorized to give any information in connection with the Global Offering or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorized by our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Underwriters, any of their respective directors, agents, employees or advisers or any other party involved in the Global Offering. Details of the structure of the Global Offering, including its conditions, are set out in "Structure of the Global Offering," and the procedures for applying for Hong Kong Offer Shares are set out in "How to Apply for Hong Kong Offer Shares" and in the relevant Application Forms.

UNDERWRITING

This prospectus is published solely in connection with the Hong Kong Public Offering. For applicants under the Hong Kong Public Offering, this prospectus and the Application Forms contain the terms and conditions of the Hong Kong Public Offering.

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

The Offer Price is expected to be fixed by the Sole Global Coordinator (on behalf of the Underwriters) and our Company on the Price Determination Date. The Price Determination Date is expected to be on or about Tuesday, July 7, 2020 and, in any event, not later than Thursday, July 9, 2020 (unless otherwise determined by the Sole Global Coordinator (on behalf of the Underwriters) and our Company). If, for whatever reason, the Offer Price is not agreed between the Sole Global Coordinator and our Company on or before Thursday, July 9, 2020, the Global Offering will not become unconditional and will lapse immediately.

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

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

RESTRICTIONS ON OFFER AND SALE OF THE OFFER SHARES

Each person acquiring the Hong Kong Offer Shares under the Hong Kong Public Offering will be required to, or be deemed by his/her acquisition of Offer Shares to, confirm that he/she is aware of the restrictions on offers for the Offer Shares described in this prospectus and the Application Forms. No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than in Hong Kong, or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offer and sale of the Offer Shares in other jurisdictions may be 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.

APPLICATION FOR LISTING ON THE HONG KONG STOCK EXCHANGE

We have applied to the Listing Committee of the Hong Kong Stock Exchange for the granting of the listing of, and permission to deal in, our Shares in issue and to be issued pursuant to the Global Offering and the exercise of the Over-allotment Option.

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

OVER-ALLOTMENT OPTION AND STABILIZATION

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

COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on the Hong Kong Stock Exchange are expected to commence on Wednesday, July 15, 2020. The Shares will be traded in board lots of 1,000 Shares each. The stock code of the Shares will be 9990.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

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

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

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

REGISTER OF MEMBERS AND STAMP DUTY

All Shares issued pursuant to applications made in the Global Offering will be registered on our Company's branch share register of members to be maintained by our Hong Kong Share Registrar. Our principal share registrar of members will be maintained by Harneys Fiduciary (Cayman) Limited in the Cayman Islands.

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

PROFESSIONAL TAX ADVICE RECOMMENDED

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

EXCHANGE RATES

Unless otherwise specified, this prospectus contains certain translations for the convenience purposes at the following rates:

HK\$1.0000 : RMB0.91496, based on the exchange rate prevailing on June 19, 2020 (being the last business day before the Latest Practicable Date) published by the PBOC for foreign exchange transactions

US\$1.0000 : RMB7.0913, based on the exchange rate prevailing on June 19, 2020 (being the last business day before the Latest Practicable Date) published by the PBOC for foreign exchange transactions

No representation is made that any amounts in HK\$, RMB and US\$ can be or could have been converted at the relevant dates at the above rates or any other rates at all.

LANGUAGE

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail, provided that if there is any inconsistency between the Chinese names and the English translation of PRC nationals, entities, departments, facilities, certificates, titles, laws, regulations (including certain of our subsidiaries) and the like included in this prospectus and for which no official English translation exists, such English translations are unofficial translations for your reference only. For the avoidance of doubt, the Chinese name prevails in such cases.

The English names of PRC entities, PRC laws or regulations, and PRC governmental authorities referred to in this prospectus are translations from their Chinese names and are for identification purposes. If there is any inconsistency, the Chinese names shall prevail. The English translation of names or any descriptions in Chinese marked with "" is for identification purposes only.*

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

ROUNDING

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

DIRECTORS

Name	Residential Address	Nationality
<i>Executive Directors</i>		
Mr. Li Qing (李青)	Building 6, Unit 12, Room 602 Lincui West Village Chaoyang District, Beijing PRC	Chinese
Mr. Bai Wei (白瑋)	Building 47, Room 206 Lincui West Village Chaoyang District, Beijing PRC	Chinese
<i>Non-executive Directors</i>		
Ms. Liu Ming (劉銘)	Room 602 No. 9 Gumei Fourth Village Minhang District, Shanghai PRC	Chinese
Mr. Yan Xinguang (閆新廣)	No. 2 Chaoyang Gate South Street Chaoyang District, Beijing PRC	Chinese
<i>Independent Non-executive Directors</i>		
Mr. Ge Xuan (葛旋)	No. 7 Hepingli Middle Street Dongcheng District, Beijing PRC	Chinese
Mr. Zhu Lin (朱霖)	Room 201, Unit 3 Block 9 No. 11 Lingyuanqian Street Lanshan District Linyi City, Shandong Province PRC	Chinese
Mr. Ding Zhiping (丁治平)	Room 504, Unit 2 Block 5 Guoji Zhidi South Gate No. 446 Renmin Road Tianshan District Urumqi PRC	New Zealand

See “Directors and Senior Management.”

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

PARTIES INVOLVED IN THE GLOBAL OFFERING

Sole Sponsor and**Sole Global Coordinator**

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

Joint Bookrunners

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

Haitong International Securities Company Limited
22/F, Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

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

Joint Lead Managers

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

Haitong International Securities Company Limited
22/F, Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

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

CNI Securities Group Limited
Unit A, 36/F, China Online Centre
333 Lockhart Road
Wanchai
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Bradbury Securities Limited
Unit 5106–07, 51/F, The Center
99 Queen’s Road Central
Central, Hong Kong

Legal Advisers to our Company

As to Hong Kong laws:
William Ji & Co. LLP
in Association with
Tian Yuan Law Firm Hong Kong Office
Suite 702, 7/F
Two Chinachem Central
26 Des Voeux Road Central
Central, Hong Kong

As to Hong Kong laws (with respect to the due incorporation, subsistence and valid operation of our Hong Kong subsidiaries only):

K.B. Chau & Co.
Unit B, 31/F
United Centre
95 Queensway
Admiralty
Hong Kong

As to PRC laws:

Tian Yuan Law Firm
10/F, China Pacific Insurance Plaza
28 Fengsheng Hutong
Xicheng District, Beijing
PRC

As to PRC laws with respect to the Dashenquan Litigation as referred to in “Business — Ongoing Legal Proceedings” only:

Beijing TA Law Firm
B10-101
Beijing iTown Office Park Gaobeidian
Chaoyang District, Beijing 100123
PRC

As to U.S. laws:

Dentons Hong Kong LLP
Suite 3201
Jardine House
1 Connaught Place
Central, Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

	<p><i>As to Cayman Islands laws:</i> Harney Westwood & Riegels 3501, The Centre 99 Queen's Road Central Hong Kong</p>
Legal Advisers to Sole Sponsor and the Underwriters	<p><i>As to Hong Kong laws and U.S. laws:</i> Clifford Chance 27/F, Jardine House One Connaught Place Hong Kong</p> <p><i>As to PRC laws:</i> Commerce & Finance Law Offices 6/F, NCI Tower A12 Jianguomenwai Avenue Chaoyang District, Beijing PRC</p>
Reporting Accountant and Auditor	<p>PricewaterhouseCoopers <i>Certified Public Accountants and Registered Public Interest Entity Auditor</i> 22/F, Prince's Building Central, Hong Kong</p>
Industry Consultant	<p>Frost & Sullivan International Limited 1706, One Exchange Square 8 Connaught Place Central, Hong Kong</p>
Receiving Banks	<p>Standard Chartered Bank (Hong Kong) Limited 15/F Standard Chartered Tower 388 Kwun Tong Road Kwun Tong, Hong Kong</p> <p>Bank of Communications Co., Ltd. Hong Kong Branch Unit B, B/F & G/F Unit C, G/F, 1-3/F, 16/F, Room 01 & 18/F, Wheelock House 20 Pedder Street Central, Hong Kong</p>

CORPORATE INFORMATION

Registered Office in Cayman Islands	Harneys Fiduciary (Cayman) Limited 4/F, Harbour Place 103 South Church Street, P.O. Box 10240 Grand Cayman KY1-1002 Cayman Islands
Headquarters	4/F, No. 8 Hangxing Science Park No.11 HePingLi East Street, Dongcheng District, Beijing PRC
Principal Place of Business in Hong Kong	40/F, Sunlight Tower 248 Queen's Road East Wanchai, Hong Kong
Company Website	www.zulong.com <i>(The information on the website does not form part of this prospectus)</i>
Joint Company Secretaries	Ms. Hao Lili (郝莉麗) No. 804, Block 4 Mudanyuan North Lane Haidian District, Beijing PRC Ms. Fok Po Yi (霍寶兒) 40/F, Sunlight Tower 248 Queen's Road East Wanchai, Hong Kong
Authorized Representatives	Mr. Li Qing (李青) Building 6, Unit 12, Room 602 Lincui West Village Chaoyang District, Beijing PRC Ms. Fok Po Yi (霍寶兒) 40/F, Sunlight Tower 248 Queen's Road East Wanchai, Hong Kong
Audit Committee	Mr. Zhu Lin (朱霖) (<i>Chairman</i>) Mr. Ge Xuan (葛旋) Mr. Ding Zhiping (丁治平)

CORPORATE INFORMATION

Remuneration Committee	Mr. Ge Xuan (葛旋) (<i>Chairman</i>) Mr. Ding Zhiping (丁治平) Mr. Li Qing (李青)
Nomination Committee	Mr. Li Qing (李青) (<i>Chairman</i>) Mr. Ge Xuan (葛旋) Mr. Ding Zhiping (丁治平)
Risk Management Committee	Mr. Ding Zhiping (丁治平) (<i>Chairman</i>) Mr. Li Qing (李青) Mr. Zhu Lin (朱霖)
Principal Share Registrar and Transfer Office	Harneys Fiduciary (Cayman) Limited 4/F Floor, Harbour Place 103 South Church Street, P.O. Box 10240 Grand Cayman KY1-1002 Cayman Islands
Hong Kong Share Registrar	Tricor Investor Services Limited Level 54, Hopewell Centre 183 Queen's Road East Hong Kong
Compliance Adviser	Red Solar Capital Limited 11/F, Kwong Fat Hong Building 1 Rumsey Street Sheung Wan, Hong Kong
Principal Banks	China Merchants Bank Co., Ltd. Tianjin Wuqing Branch Basement Shop No. 695, Jiafeng Building Yongyang West Road Yangcun Town Wuqing District, Tianjin PRC China Everbright Bank Co., Ltd Deshengmen Branch 11th Floor, Beiguang Plaza 23 Huangsi Street Xicheng District, Beijing PRC

CORPORATE INFORMATION

Industrial Bank Co., Ltd.
Beijing Haidian Branch
1st Floor, Beijing Aerospace CPMIEC Building
Haidian District, Beijing
PRC

The Hongkong and Shanghai Banking Corporation Limited
1/F Tower 2, HSBC Centre
1 Sham Mong Road, Kowloon
Hong Kong

INDUSTRY OVERVIEW

This section contains certain information, statistics and data which are derived from official government publications and industry sources as well as a commissioned report from Frost & Sullivan, an Independent Third Party (the “Frost & Sullivan Report”). The information from official government publications and the Frost & Sullivan Report may not be consistent with information available from other sources within or outside the PRC and Hong Kong. We believe that the sources of the information in this section are appropriate sources for such information and 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 part has been omitted that would render such information false or misleading. The information has not been independently verified by us, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners and the Joint Lead Managers, the Underwriters or any other party involved in the Global Offering, and no representation is given as to its accuracy.

SOURCE OF INFORMATION

We commissioned Frost & Sullivan, an independent market research and consulting company, to conduct an analysis of China’s mobile game market and related markets for the period from 2016 to 2024. We have agreed to pay a total of HK\$445,000 in fees for the preparation and use of the Frost & Sullivan Report. Figures and statistics provided in this prospectus and attributed to Frost & Sullivan or the Frost & Sullivan Report have been extracted from the Frost & Sullivan Report and published with the consent of Frost & Sullivan.

During the preparation of the market research report, Frost & Sullivan performed both primary research, which involves interviews and discussions with certain leading industry participants on the industry status, and secondary research, which involves reviewing company reports, independent research reports and data based on Frost & Sullivan’s own research database. Projected figures were obtained from historical data analysis plotted against macroeconomic data with reference to industry-related drivers.

Frost & Sullivan’s market research report was compiled based on the following assumptions: (i) the social, economic and political environments in the relevant markets are likely to remain stable in the forecast period, ensuring the stable and healthy growth of the mobile entertainment market and related industries; (ii) the economy in China and in the relevant markets is likely to maintain a steady growth in the next decade; and (iii) the relevant projections in the industry have taken into account the outbreak of COVID-19. The reliability of the Frost & Sullivan Report may be affected by the accuracy of the foregoing assumptions and factors.

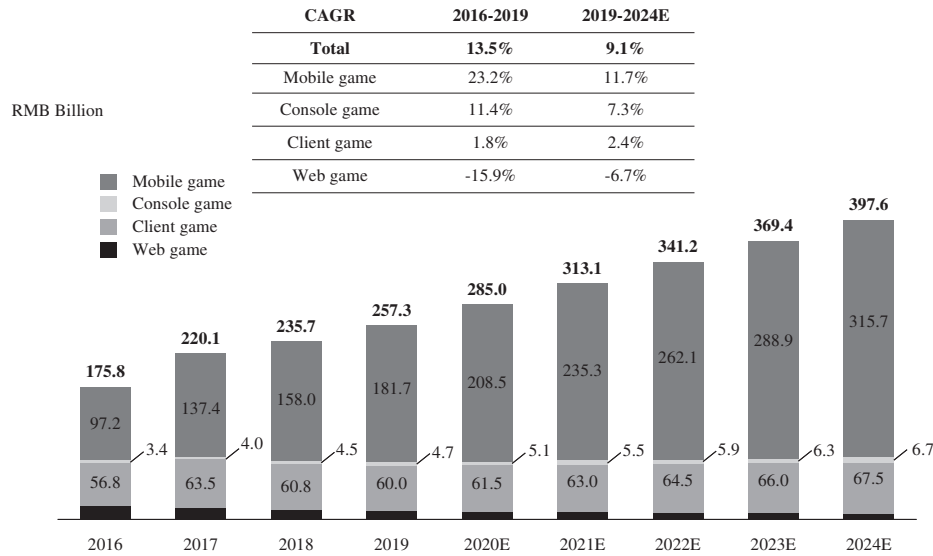
OVERVIEW OF MOBILE GAME MARKET IN MAINLAND CHINA

The game market in mainland China has become the largest in the world and its market size reached RMB257.3 billion in 2019. The game market in mainland China is expected to further grow to RMB397.6 billion in 2024, representing a CAGR of 9.1% over the period from 2019 to 2024. In comparison, the CAGR for the global game market over the same period is expected to be 7.5%.

The game market in mainland China comprises four segments: mobile game, console game, client game and web game. Among the four, mobile games refer to the games that are played on portable devices, which players usually download from the internet before playing. As the proliferation of mobile devices provides consumers with easy access to mobile games, the mobile game market has demonstrated strong momentum, achieving a CAGR of 23.2% over the period from 2016 to 2019. For 2016, 2017, 2018 and 2019, approximately 55.3%, 62.4%, 67.0% and 70.6%, respectively, of revenue generated in China’s

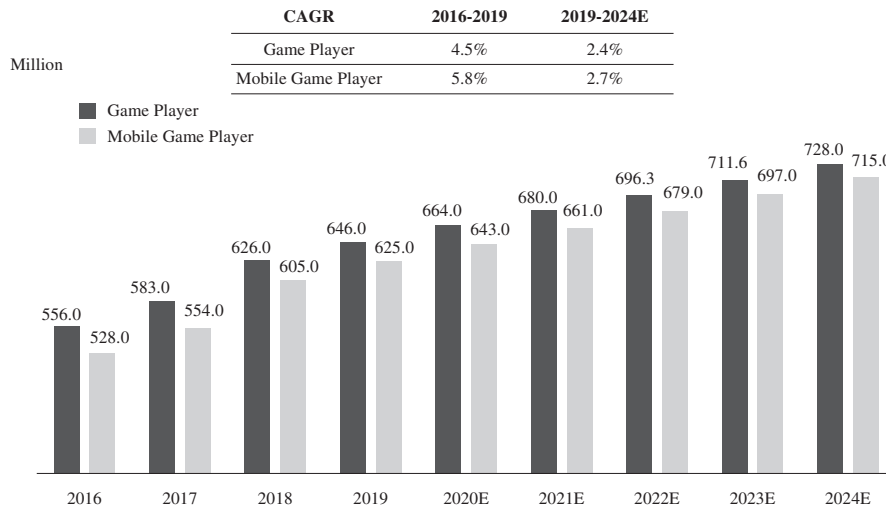
INDUSTRY OVERVIEW

game market came from the mobile game market. The diagram below illustrates the historical and forecast size of the game market in mainland China by platform from 2016 to 2024.



Source: Frost & Sullivan

The number of game players in mainland China totaled 646.0 million as of December 31, 2019, of which 625.0 million were mobile game players. The total number is projected to reach 728.0 million by December 31, 2024, of which 715.0 million are expected to be mobile game players. The diagram below illustrates the historical and forecast game player base in China's overall game market and mobile game market from 2016 to 2024.

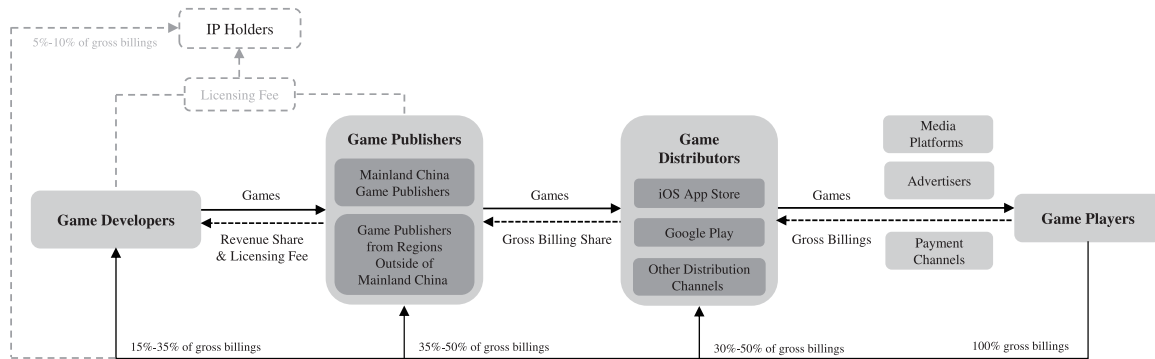


Source: Frost & Sullivan

INDUSTRY OVERVIEW

Value Chain of Mobile Game Industry in Mainland China

In addition to game players, the main participants along the value chain of China's mobile game industry consist of game developers, game publishers, distributors, payment channels and other supporting parties, such as IP holders, advertisers and media platforms. The following diagram illustrates the value chain of mobile game industry with illustrative typical gross billing allocation in mainland China.



Source: Frost & Sullivan

- **Game developers.** Game developers are game development professionals who are responsible for game design and development, pre-launch testing, ongoing post-launch operations and technical support. They develop non-IP games or create new titles based on original or licensed IP, such as literature, TV series and comics.
- **Game publishers.** Game publishers are mainly responsible for the marketing and promotion of mobile games.
- **Game distributors.** Distribution channels include hardware application stores and third-party distribution channels, all of which are in charge of sales and distribution of mobile games to end players. Third-party distribution channels can be influential, as they may possess abundant resources and broad user bases.
- **Payment channels.** Payment channels are mainly third-party online payment service providers, such as Alipay, Weixin Pay and Union Pay which are typically used in mainland China, and Apple Pay, which is available worldwide.

When Chinese game developers publish their games in markets outside of mainland China, they can choose either to collaborate with Chinese game publishers with a global presence, or to cooperate with local game publishers in those markets. Partnering with Chinese game publishers helps reduce communication friction and improve the efficiency of the collaboration process, while cooperating with local game publishers may provide better access to the game publishers' user bases and distribution networks in their respective markets.

Major Mobile Game Genres

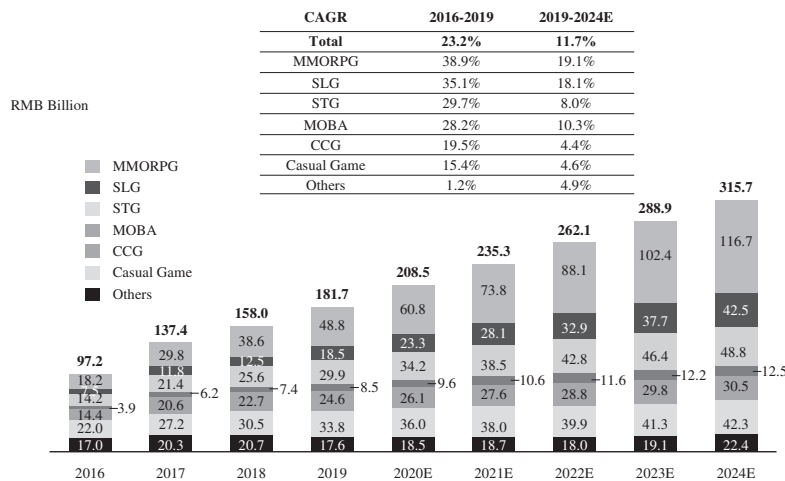
The major mobile game genres include MMORPG, SLG, STG, MOBA, CCG and casual game.

- **MMORPG.** MMORPG (massively multiplayer online role-playing game) is a genre of games that combine role-playing games and massively multiplayer online games in which a large number of players interact with one another within a virtual world.
- **SLG.** SLG (simulation game) is a genre of games that attempt to emulate various activities from real life in the game format.
- **STG.** STG (shooter game) is a genre of action games in which game players are engaged in combat with opponents by shooting and progress through the game by carrying out quests.

INDUSTRY OVERVIEW

- **MOBA.** MOBA (multiplayer online battle arena) is a genre of games in which game players each controls a single character, usually from an isometric perspective on a map, as part of a team competing against another team of game players, with the ultimate goal to destroy the opposing team’s main structure.
- **CCG.** CCG (collectable card game) is a genre of games that are played by using specially designed sets of playing cards, combining the appeal of collecting with strategic gameplay.
- **Casual Game.** Casual game is a genre of games that feature relatively simple but attractive gameplay presented in a minimalistic fashion.
- **Others.** Others include but are not limited to sports games, racing games and ACG games, catering to niche markets of game players with distinctive game cultures.

The following diagram illustrates the historical and forecast size of the mobile game market in mainland China by genre over the period from 2016 to 2024.



Source: Frost & Sullivan

As the fastest-growing genre in mainland China, MMORPG is typically characterized by high-quality game graphics and enhanced visual effects in combination with complex storylines. In contrast to single player RPG, it allows a large number of game players to form teams, explore the grand map together and interact with each other in the game’s ever-evolving world. With both social features and an immersive gaming experience, MMORPG is able to engage game players for extended periods of time.

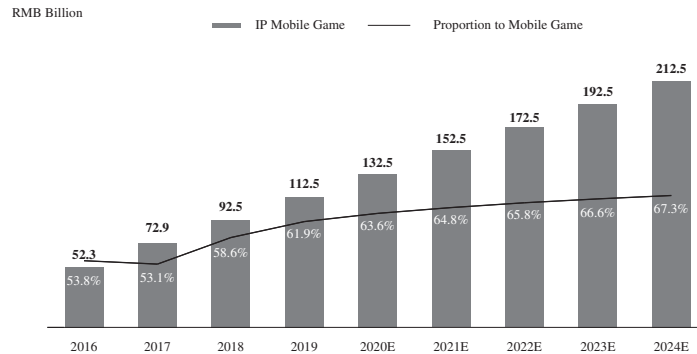
MMORPG had the largest market share of 26.9% among all mobile game genres as measured by revenue in 2019. Over the forecast period from 2019 to 2024, it is expected to achieve the highest growth rate, at a CAGR of 19.1%, demonstrating its significant growth potential. MMORPG has a longer average life cycle (ranging from eight to 18 months) than the average life cycle of all mobile games in mainland China (ranging from three to 12 months). It also had the highest average annual revenue per active user of RMB256.5 in 2019, compared to an average annual revenue per active user of RMB161.6 for CCG, the genre with the second highest average annual revenue per active user. MMORPG also had the highest average annual paying ratio of 18.5% over the period from 2016 to 2019.

INDUSTRY OVERVIEW

IP Mobile Games

IP mobile games include games based on original IP that is developed in-house (“Original IP Mobile Games”) or those with authorized IP from third-party IP holders (“Licensed IP Mobile Games”). Compared with non-IP games that adopt similar patterns or homogeneous gameplay, IP mobile games are better positioned to receive wide acceptance in the marketplace. The market size of IP mobile games reached RMB112.5 billion in 2019, with a 61.9% market share in the mobile game market.

The following diagram illustrates the historical and forecast size of the IP mobile game market in mainland China over the period from 2016 to 2024.



Source: Frost & Sullivan

Original IP Mobile Games

Original IP Mobile Games have been taking on more significance in recent years. Among the top 20 most popular mobile games in China as measured by gross billings from iOS App Store, the percentage of Original IP Mobile Games continued to rise from 35% in 2017 to 50% in 2019, indicating that game developers were increasingly focusing on creating original IP games.

Licensed IP Mobile Games

For Licensed IP Mobile Games, IP holders and game developers may foster mutually beneficial partnerships through IP licensing: game developers can capitalize on the established fanbases and virality of popular IP, rapidly building up an emotional attachment with the audience; in turn, IP holders are able to maintain and enlarge the IP’s fanbase through the mobile game format. It has also become a new trend in China’s mobile game industry that, in order to establish a global presence and to facilitate worldwide distribution, Chinese game developers seek to source world-renowned IP from international IP holders who only select game developers with strong development capabilities to partner with.

Self-developed and Co-developed Games

Self-developed Games

Self-developed games are those independently developed by single game developers. The advantage of self-development is that game developers have full control over the game development process to ensure flexibility and efficiency. Developers of self-developed games are typically equipped with strong technical capabilities, experienced development teams, and sufficient financial strength.

Co-developed Games

Co-developed games are those involving two or more game companies during the game development process. Different companies may contribute certain resources such as funds, technologies and personnel to the development projects. Companies engaging in co-development typically reach agreements that determine game ownership, IP rights and revenue share.

INDUSTRY OVERVIEW

Market Drivers

The growth in the mobile game market in mainland China is attributable to the following drivers:

- **Improvements in game development technologies to enhance player experience.** Empowered by augmented reality, virtual reality and other advanced technologies during the game development process, game companies are able to construct environments in the virtual world with photorealistic textures, delivering a cinematic and immersive gaming experience. The development of technology will continue to enrich game offerings for players and boost the growth of the mobile game market in mainland China.
- **Greater mobile internet access and reduced prices.** The three major telecommunication operators in China have lowered 4G service charges, making mobile broadband more accessible and affordable to people in rural and remote areas. With the advent of the 5G era, improved mobile internet speed and latency will further drive the growth of the mobile game market.
- **Growing demand for quality games.** Game players' loyalty to games and their willingness to pay depend increasingly on game quality, especially for midcore to hardcore mobile games, including MMORPGs. As the competition in China's mobile game market becomes intense, game developers are focusing on various attributes affecting game quality to cater to game player preferences. For example, game players may form an initial but crucial impression of game quality based on the refinement of user interfaces and game characters, the articulation and resolution of graphics as well as the rendering of visual effects.
- **Consumption upgrade and increasing willingness to pay.** As per capita disposable income continues to grow in line with China's consumption upgrade, Chinese consumers have been demonstrating an increasing willingness to pay for in-game virtual items while playing mobile games during leisure time. The proliferation of mobile payments enables game players to complete transactions instantly at their fingertips on mobile devices. As a result, game players have been channeling more of their spending power toward quality games, as indicated by the increase in the paying ratio of mobile game players from approximately 60% in 2018 to approximately 68% in 2019.

Entry Barriers

New entrants to the mobile game market are exposed to the following barriers:

- **Technology know-how.** Application of the latest technology and acquisition of technology know-how are crucial for game developers to improve their research and development capabilities. An advanced game engine, for example, provides solutions for streamlining game development, testing and transplantation. However, it takes time and significant investment for new entrants to acquire technology know-how in order to integrate the latest technology in game development.
- **Acquisition and cultivation of talent.** A team of game development professionals with in-depth understanding of the game industry, including game player preferences and latest trends, is another key entry barrier for new entrants. Such professionals ensure the game developers' ability to continuously roll out new quality titles and upgrade existing titles. It is both time consuming and costly for new entrants to acquire and build up a development team as competitive as those of established game developers.
- **Close partnerships among key market participants.** Stable cooperative relationships with market participants are pivotal for success in game development and publishing. From the game developers' perspective, they can gain access to the broad user bases of game publishers to promote their games. They also benefit from timely adjustments and updates based on player feedback shared by publishers and operating data collected from publishers' proprietary data analytics systems. Limited resources and connections in the industry would constrain new entrants from establishing market presence efficiently.

INDUSTRY OVERVIEW

Future Trends

The following trends have a continual impact on the mobile game market:

- **Greater emphasis on game content.** Rising living and consumption standards result in consumers demanding high-quality and engaging content. Game players are more receptive to games with compelling storylines and engaging content. As a result, game developers are paying more attention to enriching game content to attract and retain game players.
- **Endeavoring to enhance player loyalty.** A growing number of consumers are shifting their communication methods and social life from offline to online. Mobile games not only provide game players with entertaining content, but also with an important way to freely connect and interact with acquaintances, friends and strangers. The enrichment of social interactions by integrating add-on interactive functions in mobile games creates a network effect that boosts player loyalty and extends the life cycles of mobile games.
- **Evolution of and innovation in game genres.** China has witnessed significant development in the mobile game market spurred by internet coverage expansion and smartphone proliferation. The mobile game market, however, reached a plateau beginning in 2016. Game companies, in order to further capture market potential, endeavor to create distinctive game genres and innovate gameplay to engage existing and new game players. For instance, game developers seek to attract more female game players by fusing female-oriented elements into MMORPG.
- **Market share increase of Chinese mobile game companies in markets outside of mainland China.** Geographic expansion is another strategy for game developers to broaden player base and increase revenue. Among all markets outside of mainland China, developing countries and regions with significant growth potential, such as Southeast Asia, are the favorable target countries for Chinese mobile game exports. Geographic proximity and cultural similarity are also major considerations for business expansion in markets outside of mainland China and Chinese game developers prefer to launch games in countries and regions such as South Korea, Japan and Hong Kong, in which game players have cultivated mature paying habits. In addition, developed markets such as Europe and the United States are becoming the preferred regions for Chinese mobile game exports.
- **The emergence of cloud gaming.** Cloud gaming, an emerging game format, runs games through data synchronization on cloud servers. It has invigorated the global mobile game market by giving game players access to high-quality games in a cost-effective manner and to cross-platform games which further enhance gaming experience.

OVERVIEW OF CHINESE MOBILE GAME EXPORTS

Exporting games to markets outside of mainland China is becoming increasingly important to Chinese game companies as they are continuously seeking geographic expansion to diversify their risk and player base. In order to establish international market presence, it is considered more efficient to export a selective set of higher-budget games with better quality, rather than to flood the market with undifferentiated low-cost titles.

The markets in and outside of mainland China have distinctive characteristics. There are a wide variety of distribution channels in the mobile game market in mainland China, including the international distribution channel iOS App Store, and a number of domestic channels, such as Tencent MyApp, Huawei AppGallery, Oppo App Market, VIVO App Store, TapTap and Xiaomi App Store; whereas there are only two major distribution channels, iOS App Store and Google Play, in markets outside of mainland China. Commissions received by distribution channels in mainland China, moreover, typically range from 30% to 50% of gross billings of the distributed games, subject to the terms of the respective distribution agreements, while commissions received by iOS App Store and Google Play are around 30% of gross billings of the distributed games. The value chains and economic sharing schemes are similar in various markets outside of mainland China.

INDUSTRY OVERVIEW

Most Chinese mobile games are distributed through iOS App Store and Google Play in markets outside of mainland China. As the publishing markets for Chinese mobile games outside of mainland China are highly fragmented, the top three Chinese mobile game publishers, namely FunPlus, Tencent Game and NetEase, each had a single-digit market share in terms of gross billings generated by exported Chinese games in 2019.

The revenue generated by Chinese mobile games from markets outside of mainland China totaled US\$8.5 billion in 2019, growing at a CAGR of 21.8% over the period from 2016 to 2019. SLG, MMORPG and STG are among the most popular Chinese mobile game genres in those markets. An increasing number of Chinese game companies set their sights on and actively expand markets outside of their home turf, and game players in markets outside of mainland China are increasingly receptive to Chinese mobile games. The market size of Chinese mobile game exports is projected to grow at a CAGR of 19.6% over the period from 2019 to 2024 and is expected to reach approximately USD20.7 billion in 2024. The following table sets forth the historical and forecast size of the mobile game market in selected countries or regions for the years indicated.

Country/Region	2016	2019	2024E	CAGR	CAGR
				2016–2019	2019–2024E
<i>USD in millions, except for percentages</i>					
Hong Kong, Macau and Taiwan	770.6	1,148.1	1,769.0	14.2%	9.0%
<i>Chinese mobile games in Hong Kong, Macau and Taiwan</i>	<i>157.5</i>	<i>445.4</i>	<i>796.0</i>	<i>41.4%</i>	<i>12.3%</i>
Japan	5,853.2	8,052.4	10,584.0	11.2%	5.6%
<i>Chinese mobile games in Japan</i>	<i>426.3</i>	<i>1,107.9</i>	<i>2,257.9</i>	<i>37.5%</i>	<i>15.3%</i>
South Korea	3,897.1	5,256.3	7,302.3	10.5%	6.8%
<i>Chinese mobile games in South Korea</i>	<i>194.9</i>	<i>480.5</i>	<i>1,314.0</i>	<i>35.1%</i>	<i>22.3%</i>
Southeast Asia	1,160.0	1,867.9	3,125.3	17.2%	10.8%
<i>Chinese mobile games in Southeast Asia</i>	<i>198.2</i>	<i>554.4</i>	<i>1,250.0</i>	<i>40.9%</i>	<i>17.7%</i>
Europe	7,130.0	10,032.0	14,832.0	12.1%	8.1%
<i>Chinese mobile games in Europe</i>	<i>310.5</i>	<i>902.7</i>	<i>1,937.7</i>	<i>42.7%</i>	<i>16.5%</i>
Americas	7,899.8	12,048.2	16,932.1	15.1%	7.0%
<i>Chinese mobile games in the Americas</i>	<i>462.1</i>	<i>1,390.1</i>	<i>2,936.5</i>	<i>44.4%</i>	<i>16.1%</i>

Source: Frost & Sullivan

Hong Kong, Macau and Taiwan

Among the mobile game markets outside of mainland China, Hong Kong, Macau and Taiwan are relatively easier to penetrate for mobile game developers from mainland China due to the cultural similarity across greater China regions. Chinese mobile game companies established significant market presence in the three markets, with revenue of US\$445.4 million in 2019, representing a CAGR of 41.4% over the period from 2016 to 2019. Chinese mobile MMORPGs accounted for the largest market share of 38.5% among all game genres, encouraging more Chinese MMORPG developers to introduce their games to the markets.

Japan

As the third largest game market in the world in terms of revenue, Japan has been known for its well-established industry chain characterized by industry giants, such as Nintendo, Sony and Sega. The mobile game market in Japan has seen steady growth at a CAGR of 11.2% from 2016 to 2019 as mobile MMORPG became a key driving force, increasing its share within the mobile game market from 7.7% to 16.0%. Chinese mobile games tapped into the Japanese market in recent years, generating revenue of US\$1,107.9 million in 2019, with a CAGR of 37.5% from 2016 to 2019. Among all mobile game genres, the revenue of Chinese mobile MMORPGs experienced a substantial increase to US\$188.3 million in 2019, with a CAGR of 60.0% from 2016 to 2019.

INDUSTRY OVERVIEW

South Korea

The mobile game market in South Korea grew steadily from 2016 to 2019 at a CAGR of 10.5%. Mobile MMORPG was the dominant game genre with a 62.8% market share in 2019 and its growth outpaced the overall market, at a CAGR of 40.1% from 2016 to 2019. South Korea has been one of the most important target countries for Chinese mobile game exports. Chinese mobile games generated revenue of US\$480.5 million in 2019, with a CAGR of 35.1% from 2016 to 2019.

Southeast Asia

Southeast Asia has become the fastest-growing mobile game market in the world, owing to the extensive adoption of smartphones and improvement of internet infrastructure. Chinese mobile games registered robust growth in Southeast Asia at a CAGR of 40.9% from 2016 to 2019, with revenue reaching US\$554.4 million in 2019. Chinese mobile MMORPGs demonstrated outstanding momentum by growing their revenue to US\$144.1 million in 2019, with a CAGR of 69.3% from 2016 to 2019.

Europe

With a smartphone penetration rate of over 90% in the area, the size of the European mobile game market reached US\$10,032.0 million in 2019, at a CAGR of 12.1% from 2016 to 2019. The market share of mobile MMORPG within the mobile game market was relatively low at 12.0% in 2019. Chinese mobile games generated revenue of US\$902.7 million in 2019, at a CAGR of 42.6% from 2016 to 2019. Mobile MMORPG accounted for 8.3% of Chinese mobile game revenue in Europe and grew faster at a CAGR of 69.1% from 2016 to 2019.

Americas

The mobile game market in the Americas was the second largest in the world in 2019, with revenue of US\$12,048.2 million. Mobile MMORPG recorded a 10.7% market share within the mobile game market. By following the strategy of adapting western IP to mobile MMORPGs to cater to game player preferences in the Americas, Chinese game developers have succeeded in engaging game players in the Americas within a short time span, generating revenue of US\$1,291.6 million in 2019 with a CAGR of 44.4% from 2016 to 2019.

COMPETITIVE LANDSCAPE IN MAINLAND CHINA

According to Frost & Sullivan, the mobile game market in mainland China was concentrated in 2019. The top five mobile game developers collectively held a market share of 65.5%, in terms of gross billings from self-developed games in mainland China in 2019. The largest and second largest mobile game developers have established predominant advantages over competitors, with a total market share of 56.9% in terms of gross billings from self-developed games in mainland China in 2019. The Group ranked fifth among all Chinese mobile game developers as measured by total gross billings from self-developed games in mainland China in 2019.

INDUSTRY OVERVIEW

The following table sets forth the top five Chinese mobile game developers as measured by total gross billings from self-developed games in mainland China in 2019.

Ranking	Company name	Brief introduction	Market share of mobile game developers by gross billings from self-developed games in mainland China, 2019
1	Company A	The company provides a range of diverse and integrated social entertainment services and products such as social network platforms, and digital content such as online games, video and live streaming. Established in 2003, its game division develops and operates PC games and mobile games in and outside of mainland China. The company is the largest game company in mainland China in term of gross billings from self-developed games and has developed more than 20 mobile games covering various game genres.	39.6%
2	Company B	The company is a leading internet technology company based in mainland China, dedicated to providing online services in connection with content, community, communication and commerce. It also develops and operates PC games and mobile games in and outside of mainland China. Its game division was established in 2001. As the second largest game developer, the company has developed more than 15 mobile games, mainly MMORPGs.	17.3%
3	Company C	The company develops and operates PC games and mobile games in and outside of mainland China with a focus on MMORPG development. It has developed several well-known mobile MMORPGs and one of them was among the most popular mobile MMORPGs of 2019 in mainland China as measured by gross billings.	3.8%
4	Company D	Established in 2011, the company develops mobile games of various genres, including SLG, MMORPG and STG, and operates mobile games in and outside of mainland China. One of the mobile MMORPGs developed by the company was among the top ten most popular mobile MMORPGs of 2019 in mainland China as measured by gross billings.	3.2%
5	<i>The Group</i>		<i>1.6%</i>

Source: Frost & Sullivan

INDUSTRY OVERVIEW

The following table sets forth the ranking of the top five Chinese mobile game developers as measured by total gross billings from self-developed MMORPGs in mainland China in 2019.

Ranking	Company name	Brief introduction	Market share of mobile game developers by gross billings from self-developed MMORPGs in mainland China, 2019
1	Company B	The company is a leading internet technology company based in mainland China, dedicated to providing online services in connection with content, community, communication and commerce. It also develops and operates PC games and mobile games in and outside of mainland China. Its game division was established in 2001. As the second largest game developer, the company has developed more than 15 mobile games, mainly MMORPGs.	33.0%
2	Company C	The company develops and operates PC games and mobile games in and outside of mainland China with a focus on MMORPG development. It has developed several well-known mobile MMORPGs and one of them was among the most popular mobile MMORPGs of 2019 in mainland China as measured by gross billings.	11.7%
3	<i>The Group</i>		5.6%
4	Company A	The company provides a range of diverse and integrated social entertainment services and products such as social network platforms, and digital content such as online games, video and live streaming. Established in 2003, its game division develops and operates PC games and mobile games in and outside of mainland China. The company is the largest game company in mainland China in term of gross billings from self-developed games and has developed more than 20 mobile games covering various game genres.	4.0%
5	Company E	The company develops and operates PC games and mobile games in mainland China and one of its mobile MMORPGs ranked second in mainland China among all the mobile MMORPGs in 2019 as measured by MAUs.	4.0%

Source: Frost & Sullivan

INDUSTRY OVERVIEW

The following table sets forth the ranking of the top five Chinese mobile game developers as measured by total gross billings from self-developed MMORPGs on iOS App Store and Google Play in markets outside of mainland China from 2017 to 2019.

Ranking	Company name	Brief introduction	Market share of mobile game developers by gross billings from self-developed MMORPGs in markets outside of mainland China, 2017-2019
1	Company B	The company is a leading internet technology company based in mainland China, dedicated to providing online services in connection with content, community, communication and commerce. It also develops and operates PC games and mobile games in and outside of mainland China. Its game division was established in 2001. As the second largest game developer, the company has developed more than 15 mobile games, mainly MMORPGs.	18.3%
2	Company A	The company provides a range of diverse and integrated social entertainment services and products such as social network platforms, and digital content such as online games, video and live streaming. Established in 2003, its game division develops and operates PC games and mobile games in and outside of mainland China. The company is the largest game company in mainland China in term of gross billings from self-developed games and has developed more than 20 mobile games covering various game genres.	8.3%
3	<i>The Group</i>		8.1%
4	Company F	Established in 2009, the company develops MMORPG, SLG, ACG and other genres of mobile games and had published more than ten mobile games in markets outside of mainland China such as Southeast Asia, South Korea, Europe, the United States as of December 31, 2019.	8.0%
5	Company C	The company develops and operates PC games and mobile games in and outside of mainland China with a focus on MMORPG development. It has developed several well-known mobile MMORPGs, one of which was among the most popular mobile MMORPGs of 2019 in mainland China as measured by gross billings.	7.9%

Source: Frost & Sullivan

The following table sets forth the ranking of mobile MMORPGs in terms of average MAUs in mainland China in 2019.

Ranking	MMORPG title	Company name	Average MAUs in mainland China in 2019, million
1	<i>Dragon Raja (龍族幻想)</i>	<i>The Group</i>	3.28
2	Game 1	Company E	3.21
3	Game 2	Company B	3.19
4	Game 3	Company B	3.14
5	Game 4	Company B	2.15

Source: Frost & Sullivan

REGULATIONS ON FOREIGN INVESTMENT

Foreign Investment Industrial Policy

The Guidance Catalogue of Industries for Foreign Investment (2017) (外商投資產業指導目錄(2017)) (the “**2017 Catalogue**”) was jointly promulgated by the NDRC and the MOFCOM on June 28, 2017 and became effective on July 28, 2017. The 2017 Catalogue divides industries into three categories in terms of foreign investment: (i) encouraged projects, (ii) restricted projects, and (iii) prohibited projects. If the industry in which the investment is to occur falls into the encouraged category, foreign investment, in certain cases, may enjoy preferential policies or benefits. If restricted, foreign investment may be conducted in accordance with applicable legal and regulatory restrictions. If prohibited, foreign investment of any kind is not allowed.

The Special Administrative Measures (Negative List) for the Access of Foreign Investment (2018) (外商投資准入特別管理措施(負面清單)(2018)) (the “**2018 Negative List**”) was promulgated by the NDRC and the MOFCOM on June 28, 2018 and became effective on July 28, 2018. The negative list for access of foreign investment specified in the 2017 Catalogue was repealed simultaneously. If foreign investment falls into areas prescribed in the 2018 Negative List, special administrative measures shall apply.

The Catalogue of Industries in which Foreign Investment is Encouraged (2019) (鼓勵外商投資產業目錄(2019)) (the “**2019 Catalogue**”) and the Special Administrative Measures (Negative List) for the Access of Foreign Investment (2019) (外商投資准入特別管理措施(負面清單) (2019)) (the “**2019 Negative List**”), which became effective on July 30, 2019 and replaced the 2017 Catalogue and the 2018 Negative List, further reduce restrictions on the foreign investment. According to the 2019 Negative List and the 2019 Catalogue, the proportion of foreign investments in entities engaged in value-added telecommunications business shall not exceed 50%. The internet cultural business remains as prohibited areas for foreign investment.

Foreign Investment on Value-added Telecommunications Services

Foreign-invested telecommunication enterprises must comply with the FITE Regulations issued by the State Council on December 11, 2001 and last amended on February 6, 2016, which requires foreign-invested telecommunication enterprises to be established as Sino-foreign equity joint ventures in which the ultimate proportion of capital contribution from foreign investors shall not exceed 50%. In addition, the main foreign investor of a foreign-invested telecommunications enterprise engaging in value-added telecommunications business shall demonstrate a good track record and operation experience in operating value-added telecommunications business. Moreover, the establishment of foreign-invested telecommunications enterprises must obtain approvals from the MIIT and the MOFCOM, or their authorized local counterparts, which retain considerable discretion in granting approvals, for its commencement of value-added telecommunication business in China.

On July 13, 2006, the MII released the Notice on Strengthening the Administration of Foreign Investment in Operation of Value-added Telecommunications Businesses (關於加強外商投資經營增值電信業務管理的通知) (the “**MIIT Notice**”), pursuant to which, domestic telecommunications enterprises are prohibited to lease, transfer or sell a telecommunications business operation license to foreign investors in any form, or provide any resources, premises, facilities and other assistance in any form to foreign investors for their illegal operation of any telecommunications business in China. In addition,

REGULATORY OVERVIEW

under the MII Notice, the internet domain names and registered trademarks used by a foreign-invested value-added telecommunications service operator shall be legally owned by that operator (or its shareholders).

Foreign Investment in Internet Cultural Business

On February 17, 2011, the MOC issued the Interim Measures on the Administration of Internet Culture (互聯網文化管理暫行規定) (the “**Internet Culture Measures**”), which was promulgated on May 10, 2003 and last amended on December 15, 2017. Pursuant to the Internet Culture Measures, “internet culture products” are defined as including the online games specially produced for internet and games disseminated or distributed through internet. Provision of internet culture products and related services for commercial purpose is subject to the approval of the provincial counterparts of the MOC.

The MOC issued the Circular on Implementation of the Newly Revised Interim Measures on the Administration of Internet Culture (關於實施新修訂《互聯網文化管理暫行規定》的通知) on March 18, 2011, which provides that the authorities shall temporarily not accept applications by foreign-invested internet information services providers for operation of internet culture businesses (other than music).

The Notice Regarding the Consistent Implementation of the Stipulations on Three Provisions of the State Council and the Relevant Interpretations of the State Commission Office for Public Sector Reform and the Further Strengthening of the Administration of Pre-examination and Approval of Internet Games and the Examination and Approval of Imported Internet 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 Online Game Notice**”) jointly issued by the GAPP, the NCA and the National Office of the Combating Pornography and Illegal Publication, took effect on September 28, 2009, provides that foreign investors are prohibited from investing or engaging in online game operations and services in the PRC through wholly-owned subsidiaries, equity joint ventures or cooperative joint ventures. Foreign investors are also prohibited from gaining effective control over or participating in the online game operation business of domestic enterprises indirectly by establishing other joint ventures, entering into relevant agreements or providing technical support. The former GAPP and the SAPPRT which consolidated the relevant responsibilities of the GAPP have not yet made or issued further interpretation, guidance or implementation rules in respect of the application and implementation of the GAPP Online Game Notice.

REGULATIONS ON ONLINE GAMES IN KEY MARKETS

Set out below is a summary of laws and regulations in relation to online games in key markets, namely, the PRC, Hong Kong, Taiwan, South Korea and the United States:

PRC

Value-added Telecommunication Services

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 September 25, 2000 and last amended on February 6, 2016, provides a regulatory framework for telecommunications services providers in the PRC. The Telecommunications Regulations requires telecommunications services

REGULATORY OVERVIEW

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 Catalogue of Telecommunications Business (電信業務分類目錄), attached to the Telecommunications Regulations, which was promulgated by the MII on September 25, 2000 and last amended by the MIIT on June 6, 2019, information services provided via fixed network, mobile network and internet fall within value-added telecommunications services. According to the Telecommunications Regulations, a commercial telecommunication service provider in China shall obtain an operating license from the MIIT or its provincial-level counterparts.

The Administrative Measures on Internet Information Services (互聯網信息服務管理辦法) (the “**Internet Measures**”), which was promulgated by the State Council on September 25, 2000 and amended on January 8, 2011, set out guidelines on the provision of internet information services. The Internet Measures classified internet information services into commercial internet information services and non-commercial internet information services and a commercial operator of internet content provision services must obtain an ICP License for the provision of internet information services from the appropriate telecommunications authorities. The Administrative Measures for Telecommunications Businesses Operating Licensing (電信業務經營許可管理辦法), which was promulgated by the MIIT on July 3, 2017 and became effective on September 1, 2017, further regulates that there are two types of telecom operating licenses for operators in China, namely, licenses for basic telecommunications services and licenses for value-added telecommunications services (the “**VATS License**”). The operation scope of the license will detail the permitted activities of the enterprise to which it was granted. An approved telecommunication services operator shall conduct its business in accordance with the specifications listed in its VATS License. In addition, the holder of a VATS License is required to obtain approval from the original permit-issuing authority in respect of any change to its shareholders. Where a business operator intends to continue operating upon expiry of the valid period of the VATS License, it shall apply for renewal of VATS License to the original issuing authorities 90 days prior to the expiration date.

On June 28, 2016, the State Internet Information Office promulgated the Administrative Provisions on Information Services of Mobile Internet Application Programs (移動互聯網應用程序信息服務管理規定) (the “**Mobile Application Administrative Provisions**”) which became effective on August 1, 2016, to strengthen the regulation of the mobile application information services. Pursuant to the Mobile Application Administrative Provisions, an internet application program provider must verify a user’s mobile phone number and other identity information under the principle of mandatory real name registration at the back-office end and voluntary real name display at the front-office end. An internet application program provider must not enable functions that can collect a user’s geographical location information, access user’s contact list, activate the camera or recorder of the user’s mobile smart device or other functions irrelevant to its services, nor is it allowed to conduct bundle installations of irrelevant application programs, unless it has clearly indicated to the user and obtained the user’s consent on such functions and application programs.

Regulatory Authorities

Pursuant to the Notice on Issuing the Provisions on the Main Functions, Internal Bodies and Staffing of the General Administration of Press and Publication (National Copyright Administration) promulgated by the General Office of the State Council (關於印發國家新聞出版總署(國家版權局)主要職責內設機構和

REGULATORY OVERVIEW

人員編製規定的通知) promulgated on July 11, 2008, the Notice of the State Commission Office for Public Sector Reform on Interpretation of the State Commission Office for Public Sector Reform on Several Provisions relating to Animation, Online Game and Comprehensive Law Enforcement in Culture Market in the Three Provisions jointly promulgated by the MOC, SARFT and the GAPP (中央機構編製委員會辦公室關於印發《中央編辦對文化部、廣電總局、新聞出版總署〈三定規定〉中有關動漫、網絡遊戲和文化市場綜合執法的部分條文的解釋》的通知) promulgated on September 7, 2009, the Notice on Issuing the Provisions on the Main Functions, Internal Bodies and Staffing of the State Administration of Press, Publication, Radio, Film and Television promulgated by the General Office of the State Council (關於印發國家新聞出版廣電總局主要職責內設機構和人員編製規定的通知) promulgated on July 11, 2013, and the Administrative Measures on Internet Publishing Services (網絡出版服務管理規定) (the “**Internet Publishing Measures**”) promulgated by the SAPPRFT and the MIIT on February 4, 2016 and took effective on March 10, 2016, the SAPPRFT is responsible for the approval of game registration and issuance of game publication numbers, and after the online games uploaded on the Internet, online games will be administered by the MOC.

In March 2018, the Central Committee of the Communist Party of China issued the Plan 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 promulgated the Decision of the First Session of the Thirteenth National People’s Congress on the State Council Institutional Reform Proposal (第十三屆全國人民代表大會第一次會議關於國務院機構改革方案的決定) (collectively, the “**Institutional Reform Plans**”). According to the Institutional Reform Plans, the SAPPRFT was reformed and now known as the NRTA under the State Council, and the responsibility of the SAPPRFT for the approval of online game registrations and issuance of game publication numbers has been transferred to the NAPP effective from March 21, 2018. The NAPP at the national level suspended approval of game registration and issuance of publication numbers for online games since March 2018 and resumed to issue game publication numbers by batches periodically since December 2018. Beginning in December 2018, the NAPP at the national level started to approve new online games.

On May 14, 2019, the General Office of the MOCT released the Notice on Adjusting the Scope of Examination and Approval regarding the Internet Culture Operation License 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), which quotes the Regulations on the Function Configuration, Internal Institutions and Staffing of the MOCT (文化和旅遊部職能配置、內設機構和人員編製規定) and further specifies that the MOCT no longer assumes the responsibility for administering the industry of online games. On July 10, 2019, the MOCT issued the Abolition Decision. The Abolition Decision also cites the Regulations on the Function Configuration, Internal Institutions and Staffing of the MOCT and further abolishes the Online Game Measures, which means that the MOCT will no longer regulate the industry of the online games. As of the Latest Practicable Date, no laws, regulations or official guidelines have been promulgated regarding whether the responsibility of MOCT for regulating online games will be undertaken by another governmental department.

The Internet Cultural Operation Licenses held by Tianjin Loong and Huai’an Loong will expire on November 5, 2021 and May 10, 2020, respectively. Since (i) the MOCT ceases to assume the responsibility for the administration of the online game industry and no longer approves or issues the Internet Cultural Operation Licenses regarding online games since May 2019 and (ii) as of the Latest Practicable Date, no laws, regulations or official guidelines have been promulgated to specify which governmental authority would undertake such supervision responsibility, whether and how our Internet Cultural Operation Licenses can be renewed are subject to new laws and regulations and supervision

REGULATORY OVERVIEW

requirements by new PRC regulatory authorities in the future. Therefore, as advised by our PRC Legal Adviser, and based on our consultation with the Tianjin Municipal Bureau of Culture and Tourism (天津市文化和旅遊局) and the Jiangsu Provincial Department of Culture and Tourism (江蘇省文化和旅遊廳), in the absence of new laws, regulations, official guidelines or authorities requiring us to obtain or renew our Internet Cultural Operation Licenses upon expiry, we are able to continue our mobile game operations without renewal of such licenses, which will not constitute any non-compliance of the Group. As advised by the PRC Legal Adviser, the personnel who gave the aforementioned oral confirmations had the authority to give such oral confirmations on behalf the Tianjin Municipal Bureau of Culture and Tourism and the Jiangsu Provincial Department of Culture and Tourism, respectively. We will closely monitor the latest regulatory developments and make every effort to comply with any new regulations and policies.

Online Game Publication

Pursuant to the Internet Publishing Measures, online publications such as games provided to the public through information networks must be approved by the SAPPRFT and obtain an Internet Publishing Service License. According to the Internet Publishing Measures, before publishing an online game, an online publishing service provider shall file application with the competent provincial-level publishing administrative department where it is located and the application, if reviewed and approved, shall be submitted to the SAPPRFT for approval.

The Mobile Game Notice, which was issued by the SAPPRFT on May 24, 2016 and took effect on July 1, 2016, provides that game publishing services providers shall be responsible for examining the contents of their games and applying for game publication numbers (遊戲出版物號). An online game shall not be published without the prior approval of the SAPPRFT. For the purpose of the Mobile Game Notice, game publishing services providers refer to online publishing service entities that have obtained the Internet Publishing Service License from the SAPPRFT, with game publishing business included in their scope of business. To apply for publication of domestically-developed mobile games in the leisure and puzzle category that are not related to political, military, national or religious topics or contents and have no or simple story lines, entities, the game publishing service providers shall submit the required documents to competent provincial publishing administrative departments where it is located at least 20 working days prior to the expected date of online publication (public beta). Game publishing service providers applying for publication of domestically-developed mobile games that are not included in the above-mentioned category and mobile games that are authorized by foreign copyright owners shall go through more stringent procedures, including submitting management accounts for content review and testing account for game anti-indulgence system. The game publishing services providers must set up a specific page to display the information approved by the SAPPRFT, including the copyright owner of the game, publishing service provider, approval number, publication number and others, and shall be responsible for examining and recording daily updates of the game. Concerning those mobile games (including pre-installed mobile games) that have been published and operated online before the implementation of this notice, other requirements apply to maintain the publication and operation of such games online, relevant approval procedures would have to be implemented by the game publishing service providers in coordination with the provincial publication administrative departments before October 1, 2016 as required by this notice. On September 19, 2016, the SAPPRFT further circulated the Notice on Extending the Relevant Work Time Limit in the Mobile Game Notice (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) to extend the work time limit from October 1, 2016

REGULATORY OVERVIEW

to December 31, 2016. The responsibility of the SAPPRFT for the approval of online game registrations and issuance of game publication numbers has been transferred to the NAPP effective from March 21, 2018. See “Regulatory Overview — Regulatory Authorities.”

As of the Latest Practicable Date, all of our mobile games published in the PRC have been approved for publication and obtained game publication numbers through applications filed by qualified online publishing service providers which hold Internet Publishing Service Licenses.

Online Games Operations

The Online Game Measures that was issued by the MOC on August 1, 2010 and last amended on December 15, 2017, comprehensively regulate the activities related to online game business, including the research and development and production of online games, the operation of online games, the standards for online games content, the issuance of virtual currencies used for online games and virtual currency trading services. The Online Game Measures provides that any entity engaging in online game operations must obtain an Internet Cultural Operation License, and the content of an imported online game must be examined and approved by the MOC prior to its launch. Domestically-developed online games must be filed with the MOC within 30 days of its launch. The Online Game Measures also requires online game operators to protect the interests of the online game players and specified certain terms that must be included in the service agreements between online game operators and its online game players. The Notice of the MOC on the Implementation of the Interim Measures for the Administration of Online Games (文化部關於貫徹實施《網絡遊戲管理暫行辦法》的通知) which was took effect on July 29, 2010 specifies the entities regulated by the Online Game Measures and procedures related to the MOC’s review of the content of online games, and emphasizes the protection of minors playing online games and requests online game operators to promote real-name registration by their game players.

Pursuant to the Notice of the State Commission Office for Public Sector Reform on Interpretation of the State Commission Office for Public Sector Reform on Several Provisions relating to Animation, Online Game and Comprehensive Law Enforcement in Culture Market in the Three Provisions jointly promulgated by the MOC, SARFT and the GAPP promulgated on September 7, 2009, under the centralised management of the MOC, the GAPP is responsible for the examination and approval process of online games prior to online publication. After such publication, the online games will only be administered by the MOC. Moreover, if an online game is launched on the internet without the prior approval of the GAPP, the MOC will be responsible for guiding the cultural market law enforcement team to conduct investigation and punishment.

On July 10, 2019, the MOCT issued the Abolition Decision, which specifies that the Online Game Measures was abolished by the MOCT on July 10, 2019.

Content Review

The Internet Measures stipulates that internet information service providers shall not produce, reproduce, distribute or disseminate information that includes the following contents: (i) content that is against the basic principles determined by the constitution, (ii) content that impairs national security, divulges State secrets, subverts State sovereignty or jeopardizes national unity, (iii) content that damages the reputation and interests of the State, (iv) content that incites ethnic hostility and ethnic discrimination or jeopardizes unity among ethnic groups, (v) content that damages State religious policies or that

REGULATORY OVERVIEW

advocates sects or feudal superstitions, (vi) content that disseminates rumours, disturbs the social order or damages social stability, (vii) content that disseminates obscenity, pornography, gambling, violence, homicide and terror, or incites crime, (viii) content that insults or slanders others or that infringes their legal rights and interests, and (ix) other content prohibited by laws or administrative regulations.

The Online Game Measures further stipulates that the culture administrative department of the State Council shall be responsible for the examination of online game content and shall engage relevant experts to undertake the relevant consulting and routine work on the examination, filing and authentication of online game content. The culture administrative department of the State Council shall not conduct repetitive examination of any online game publication pre-approved by the relevant department and permit the launch of pre-approved publications.

The Notice on Strengthening of Online Game Content Censorship (關於加強網絡遊戲產品內容審查工作的通知), issued by the MOC on May 14, 2004, mandates the establishment of a committee under the MOC to screen the content of imported online games and requires that the content of all imported online games be approved by the MOC. The Notice on Improving and Strengthening the Administration of Online Game Content (關於改進和加強網絡遊戲內容管理工作的通知), issued by the MOC on November 13, 2009, requests online game operators to improve and adapt their game models by (i) mitigating the predominance of the “upgrade by monster fighting” model, (ii) limiting the use of the “player killing” model (where one player’s avatar attempts to kill another player’s avatar), (iii) limiting in-game marriages among game players, and (iv) improving their compliance with legal requirements for the registration of minors and game time limits. However, the Notice on Strengthening of Online Game Content Censorship and the Notice on Improving and Strengthening the Administration of Online Game Content have been abolished by the MOCT on August 19, 2019.

Virtual Currency and Virtual Items

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

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

According to the Notice on Regulating the Operations of Online Games and Strengthening Interim and Ex Post Regulation (關於規範網絡遊戲運營加強事中事後監管工作的通知) (the “**Interim and Ex Post Supervision Notice**”) promulgated by the MOC on December 1, 2016 and became effective on May 1,

REGULATORY OVERVIEW

2017, the virtual items, purchased by users directly with legal tender, by using the virtual currencies of online games or by exchanging the virtual currencies of online games according to a certain percentage and enable users to directly exchange for other virtual items or value-added service functions in online games, shall be regulated pursuant to the provisions on virtual currencies of online games. Online game operators shall not provide users with services to exchange virtual currencies into legal currency. Where it provides users with the option to exchange virtual currencies into physical items of minor value, the contents and value of such physical items shall be in compliance with relevant laws and regulations of the State. However, the Interim and Ex Post Supervision Notice has been abolished by the MOCT on August 19, 2019.

Anti-addiction System and Minor Protection

Pursuant to the Online Game Measures, online game operators shall require online game users to use valid identity documents for real-name registration and save the users' registration information. The Interim and Ex Post Supervision Notice provides that the online game operators shall require online game users to register their real names with valid identity documents, keep user's registration information, and shall not provide recharge or consumer services in game for online game users who login as visitors.

According to the Online Game Measures, an online game operator shall, pursuant to the relevant laws and regulations, take technical measures to prohibit minors from access to improper games or game functions, restrict the playtime of minors and prevent minors from indulging in network. The Interim and Ex Post Supervision Notice has also required that the online game operators shall fully comply with the relevant provisions of the Parents' Guardian Project for Minors Playing Online Games (網絡遊戲未成年人家長監護工程), based on which, online game operators shall impose money and time limits for minor users in game and take technical measures to block the scenes and functions not appropriate for minors.

On April 15, 2007, eight PRC government authorities, including the GAPP, the MOE, the MPS and the MIIT, jointly issued the Anti-addiction Notice, which requires the implementation of an anti-addiction compliance system and a real-name registration system by all PRC online game operators. Under the anti-addiction compliance system, three hours or less of continuous playing by minors, defined as game players under 18 years of age, is considered to be "healthy," three to five hours is deemed "fatiguing" and five hours or more is deemed "unhealthy." Online game operators are required to reduce the value of in-game benefits to an online game player by half if it discovers that the amount of a time an online game player spends online has reached the "fatiguing" level, and to zero in the case of the "unhealthy" level.

Pursuant to the Real Name Authentication Notice issued by the relevant government authorities on July 1, 2011, online game (excluding mobile game) operators shall submit the identity information of game players to the National Citizen Identity Information Centre, a subordinate public institution of the MPS, for verification since October 1, 2011, in an effort to prevent minors from using an adult's ID to play online games. On July 25, 2014, the SAPPRFT issued the Notice Regarding In-depth Development of Anti-addiction Real Name Authentication on Online Games (關於深入開展網絡遊戲防沉迷實名驗證工作的通知), became effective on October 1, 2014, which specifies that subject to the hardware, technology and other factors, the anti-addiction compliance system applies to all online games excluding mobile games temporarily. Additionally, according to the Mobile Game Notice, which became effective

REGULATORY OVERVIEW

in July 2016, mobile games are subject to the Real Name Authentication Notice unless the mobile game to be published, among other things, does not concern themes such as politics, military, nations and religions, belongs to the class of casual puzzle domestic mobile games without plots or with simple plots and is not authorized by overseas copyright owners.

On August 30, 2018, eight PRC regulatory authorities at national governmental level, including the NAPP and the MOE, released the Implementation Programme on Prevention of Juveniles Myopia. As a part of the plan to prevent myopia among children, the Implementation Programme on Prevention of Juveniles Myopia plans to regulate the number of new online games and restrict the amount of time kids spend playing on electronic devices. As of the Latest Practicable Date, no detailed implementation rule has been issued to enforce the Implementation Programme on Prevention of Juveniles Myopia regarding online games.

On October 25, 2019, the NAPP issued the Notice on Preventing Minors from Indulging in Online Games which took effect from November 1, 2019. The Notice stipulates several requirements on the online game operation as follows: (i) The real-name registration system shall be implemented. All online game users shall register their game accounts with valid identity information. Online-game companies shall require existing users to complete real-name registration and shall not provide any game services for those users who have not completed real-name registration. Online game companies may set a visitor experience mode up to one-hour under which users are not required to register with their real names but cannot top up or purchase in-game virtual items. Online game companies shall not repeatedly provide visitor experience mode service to users using the same device within 15 days. (ii) The time slot and duration for playing online games by minors shall be strictly controlled. Game services shall not be provided to minors between 10:00 p.m. to 8:00 a.m. the next day and shall not exceed 3 hours per day during statutory holidays and 1.5 hours per day during other times. (iii) The provision of paid services to minors shall be regulated. The online game enterprises shall not provide paid services to minor users under 8 years old. For minor users between 8 and 16 years old to, the top-up amount shall not exceed RMB50 per time and the accumulative amount shall not exceed RMB200 per month; for those over 16 years old but below 18 years old, the top-up amount shall not exceed RMB100 per time and the accumulative amount shall not exceed RMB400 per month. (iv) The regulation of the industry shall be enhanced. The requirements above shall be requisite for launching, publishing and operating online games. For online game companies which fail to fulfill the requirements of the Notice, local publishing administrative departments shall order them to take rectification measures within a limited period of time; in serious cases, it shall be dealt with according to laws and regulations or even the relevant licenses of such online game companies shall be revoked. (v) The development and implementation of appropriate-age reminding system shall be explored. The game companies shall explore ways to remind their users of specific online games designed for users of different ages and display such reminders at prominent places on pages for download, registration and login. Online game companies shall analyze the cause of minor addiction, and alter the content and features of games or game rules resulting in such addiction.

The registered players who are minors in the PRC constituted around 4% of the total cumulative registered players of our mobile games as of December 31, 2019. Since most of players in our games are adults, rather than minors in the PRC, the implementation of the Notice has not had any material adverse impact to our financial condition.

REGULATORY OVERVIEW

As of the Latest Practicable Date, our Group has implemented a real name registration system and a game addiction prevention system in all of our self-publishing games in accordance with the Notice. These two systems include, among others, following measures:

- (i) the real name registration system requires users to register with valid identity information;
- (ii) minors under the age of 8 cannot log in to games;
- (iii) the accumulated time of minors playing game each day is monitored, calculated and limited to less than three hours per day on PRC statutory holidays and 1.5 hours per day during other times, and upon exceeding such time limit a notification will pop up and the player will be forced to go offline; and
- (iv) consumption limits for minors have been implemented as required by the Notice.

In addition, the Group has filed reports with competent authorities regarding the implementation of our real name registration system and game addiction prevention system as of the Latest Practicable Date.

Further, the Group has maintained active communications with our publishing partners, including Tencent and Zlongame, to ensure that our licensed games are operating in compliance with the various requirements under the Notice. Based on our communications with Tencent and Zlongame, and to the best knowledge of our Directors, as of the Latest Practicable Date, real name registration systems and game addiction prevention systems have been implemented in our licensed games.

Given that (i) the Group has established and implemented the abovementioned real name registration system and game addiction prevention system in accordance with the Notice, and (ii) none of our Consolidated Affiliated Entities had been subject to any administrative penalties due to violation of the Notice or other PRC laws and regulations on protection of minors during the Track Record Period, our PRC Legal Adviser is of the view that the measures undertaken by the Group are in compliance with the Notice.

Based on the forgoing, our Directors are of the view that the implementation of real name registration system and game addiction prevention system are effective means to ensure the Group's compliance with the various requirements under the Notice.

Advertisement

The Advertisement Law of the PRC (中華人民共和國廣告法), which was last amended on October 26, 2018, requires advertisers, advertising operators and advertising distributors to ensure that the content of the advertisements they produce or distribute are true and in full compliance with applicable laws and regulations and the content of the advertisement shall not contain the prohibited information including but not limited to: (i) information harm the dignity or interests of the State or divulge the secrets of the State, (ii) information contain wordings such as “national level,” “highest level” and “best,” and (iii) information contain ethnic, racial, religious, sexual discrimination.

On July 4, 2016, the SAIC promulgated the Interim Measures on Internet Advertisement (互聯網廣告管理暫行辦法) (the “**Internet Advertisement Measures**”) and the Internet Advertisement Measures became effective on September 1, 2016. The Internet Advertisement Measures regulates any

REGULATORY OVERVIEW

advertisement published on the internet, including but not limited to, through websites, webpage and APPs, in the form of word, picture, audio and video and provides more detailed guidelines to the advertisers, advertising operators and advertising distributors. According to the Internet Advertisement Measures, internet information service providers must stop any person from using their information services to publish illegal advertisements if they are aware of, or should reasonably be aware of, such illegal advertisements even though the internet information service provider merely provides information services and is not involved in the internet advertisement businesses.

Hong Kong

There is no government license or permit required for our Group's business of proprietary game operation in Hong Kong.

Copyright Ordinance (Chapter 528 of the Laws of Hong Kong) (the "CO")

When we are developing and publishing mobile games in Hong Kong, we may create our original work in a literary or artistic form which qualifies for copyright protection.

The CO provides protection for certain types of work including literary, dramatic, musical and artistic works, sound recordings, films, broadcasts, cable programmes, and works made available to the public on the Internet. No registration is required under the CO and any infringement of copyright is civilly actionable.

Trade Marks Ordinance (Chapter 599 of the Laws of Hong Kong) (the "TMO")

The TMO provides for the registration of trademarks, the use of registered trademarks and related matters. The trademark registration system in Hong Kong provides territorial protection. Hence, trademarks registered in other jurisdictions or areas do not automatically receive protection in Hong Kong. In order to obtain protection under the laws of Hong Kong, trademarks must be registered with the Trade Marks Registry of the Intellectual Property Department under the TMO and the Trade Marks Rules (Chapter 599A of the Laws of Hong Kong) (the "TMR").

Section 10 of the TMO states that a registered trademark is a property right gained by way registration under such ordinance. The owner of a registered trademark shall have the rights and is entitled to the remedies provided by the TMO.

Pursuant to section 14 of the TMO, the owner of a registered trademark is conferred exclusive rights in the trademark. The rights of the owner of a registered trademark have effect from the date the trademark is registered. Under section 48 of the TMO, the date of registration of a trade mark is the filing date of the application for registration.

We are the registered owner and have applied for the registration of certain trademarks. We set out the details of the trademarks in that we consider to be material to our business in the section headed "Statutory and General Information — 2. Intellectual Property Rights" in Appendix IV to this prospectus.

REGULATORY OVERVIEW

Subject to the exceptions in sections 19 and 21 of the TMO, any use of a registered trademark by third parties without the consent of the owner constitutes a trademark infringement. The owner of a registered trade mark shall have the right to redress the infringement of the registered trademark according to the TMO, including infringement proceedings provided for in sections 23 and 25 of such ordinance.

Trademarks which are not registered under the TMO and the TMR may still seek protection by means of the common law action of passing off, which requires proof of the owner's reputation in the unregistered trade mark and that the use of the trade mark by third parties will cause damage to the owner.

Control of Obscene and Indecent Articles Ordinance (Chapter 390 of the Laws of Hong Kong) (the "COIAO")

Any articles appearing in the mobile games in Hong Kong are subject to the COIAO. Under section 21 of the COIAO, any person who publishes, possesses for the purpose of publication or imports for the purpose of publication, any obscene article, commits an offence and is liable to a fine of HK\$1,000,000 and to imprisonment for three years.

Under section 22 of the COIAO, any person who publishes any indecent article to a person who is a juvenile, whether or not he knows that it is an indecent article or that such a person is a juvenile, commits an offence and is liable to a fine of HK\$400,000 and to imprisonment for 12 months on his first conviction, and to a fine of HK\$800,000 and to imprisonment for 12 months on a second or subsequent conviction. Section 24 of the COIAO also specifies that any person who publishes an indecent article shall comply with the applicable legislative provisions, including sealing the article in a wrapper and displaying on the front and back covers of the statutory warning notice, which states that the article concerned should not be sold to a person under the age of 18 years. In addition, the letters and characters constituting such warning notice shall take up at least 20% of the front and back covers of the article.

Trade Descriptions Ordinance (Chapter 362 of the Laws of Hong Kong) (the "TDO")

The TDO is intended to preclude false representation of trade, false, misleading or incomplete information, false statements, etc. in respect of goods supplied in the course of trade. We publish a range of games developed by our in-house team directly on certain mobile platforms. As such, the products offered by our Group may be required to conform with the applicable requirements therein.

Section 2 of the TDO sets out, *inter alia*, that "trade description" in relation to goods means an indication, direct or indirect, and by whatever means given, of certain matters (including, among others, quantity and price), with respect to any goods or parts of the goods; and in relation to services means an indication, direct or indirect, and by whatever means given, of certain matters (including, among others, nature, scope, quantity, after-sale service assistance and price).

Sections 7 and 7A of the TDO provide that no person shall in the course of trade or business apply a false trade description to any goods or services or sell or offer to supply any goods or services to which a false trade description is applied.

REGULATORY OVERVIEW

Sections 13E, 13F, 13G, 13H and 13I of the TDO provide that a trader who engages in relation to a consumer in a commercial practice that (a) is a misleading omission; or (b) is aggressive; (c) constitutes bait advertising; (d) constitutes a bait and switch; or (e) constitutes wrongly accepting payment for a product, commits an offence.

A person who commits an offence under sections 7, 7A, 13E, 13F, 13G, 13H and 13I of the TDO shall be subject, on conviction on indictment, to a fine of HK\$500,000 and to imprisonment for five years, and on summary conviction, to a fine of HK\$100,000 and to imprisonment for two years.

Sale of Goods Ordinance (Chapter 26 of the Laws of Hong Kong) (the “SOGO”)

As we publish a number of games developed by our in-house team directly via certain mobile platforms, we are required to comply with the relevant provisions under the SOGO.

Pursuant to sections 15 and 16 of the SOGO, where a seller sells goods in the course of a business, there is an implied condition that (a) where the goods are purchased by description, the goods must correspond with the description; (b) the goods supplied are of merchantable quality; and (c) the goods must be fit for the purpose for which they are purchased. Otherwise, a buyer has the right to reject defective goods unless he or she has a reasonable opportunity to examine the goods.

Personal Data (Privacy) Ordinance (Chapter 486 of the Laws of Hong Kong) (the “PDPO”)

Section 4 of the PDPO states that any person who controls the collection, holding, processing or use of the personal data (the “**data user**”) shall not do any act, or engage in a practice, that contravenes any of the data protection principles set out in Schedule 1 to the PDPO (the “**Data Protection Principles**”) unless the act or practice, as the case may be, is required or permitted under the PDPO. Personal data means any data (a) relating directly or indirectly to a living individual; (b) from which it is practicable for the identity of the individual to be directly or indirectly ascertained; and (c) in a form in which access to or processing of the data is practicable.

We may collect the personal data of game players in the course of our business. Hence, we are required to comply with the Data Protection Principles. The Data Protection Principles set out that (1) personal data must be collected in a lawful and fair way, for a purpose directly related to a function or activity of the data user. Data subjects must be notified of the purpose for which the data is to be used for and the classes of persons to whom the data may be transferred. Data collected should be adequate but not excessive; (2) personal data must be accurate and should not be kept for a period longer than necessary for the fulfilment of the purpose for which the data is or is to be used; (3) personal data must be used for the purpose for which the data is collected or for a directly related purpose unless voluntary and explicit consent with a new purpose is obtained from the data subject; (4) a data user shall take practicable steps to safeguard any personal data held against unauthorised or accidental access, processing, erasure, loss or use; (5) a data user shall take practicable steps to ensure that its policies and practices in relation to personal data, the kind of personal data it holds and the main purposes for which the personal data is or is to be used for are made known to the public; and (6) a data user shall be entitled to request access to personal data and must be allowed to correct the personal data if it is inaccurate.

In the event of non-compliance with any of the principles above, the Privacy Commissioner for Personal Data may serve an enforcement notice on the data user, directing the data user to remedy the contravention and, where applicable, prevent any recurrence of the contravention. Section 50A of the

REGULATORY OVERVIEW

PDPO states that a data user who contravenes an enforcement notice commits an offence and shall be liable to a fine of HK\$50,000 and to imprisonment for two years, and to a daily penalty of HK\$1,000 if the contravention continues after the conviction.

The PDPO further criminalises misuse or inappropriate use of personal data in directing marketing activities under Part VIA of the PDPO, non-compliance with data access request under section 19 of the PDPO, and unauthorised disclosure of personal data collected without consent from data users under section 64 of the PDPO.

An individual who suffers damage, including injured feelings, by reason of contravention of the PDPO in relation to his or her personal data, may seek damages from the data user concerned in civil proceedings.

On 4 September 2015, the Privacy Commissioner for Personal Data released a media statement on the initial findings of an international privacy sweep exercise examining websites and mobile applications targeted at youngsters, outlining the areas of privacy practices that websites and mobile applications should pay attention to, in particular, when gathering and handling personal data of youngsters. The following are some specific issues outlined by the Privacy Commissioner for Personal Data:

- websites/mobile applications collected potentially sensitive personal data such as name, date of birth, phone number, address and photos or video;
- websites/mobile applications failed to use simple language or to present warnings that youngsters could easily read and understand;
- websites/mobile applications did not have effective controls in place to limit the collection of personal data from youngsters, in particular, some websites/mobile applications offered youngsters the opportunity to be redirected to a different website where they could be asked to disclose personal data;
- websites/mobile applications shared personal data with third parties, in some cases for vague or unspecified purposes;
- websites/mobile applications encouraged parental involvement; and
- websites/mobile applications did not offer an accessible means for deleting account information.

The Privacy Commissioner for Personal Data encouraged data users to follow its “Guidance for Data Users on the Collection and Use of Personal Data through the Internet” and “Best Practice Guide for Mobile App Development” in the collection of personal data on websites/mobile applications.

Taiwan

The Act Governing Relations between the People of the Taiwan Area and the Mainland Area (台灣地區與大陸地區人民關係條例, the “Cross-Strait Relation Act”)

The Cross-Strait Relation Act and the Regulations Governing Mainland Area People’s Investment in Taiwan (大陸地區人民來台投資許可辦法) adopt a so-called “positive-list” regulation method, i.e., unless a business is expressly opened to PRC persons in the positive list of permitted investment (陸資

REGULATORY OVERVIEW

投資正面表列, the “**Positive List**”) promulgated by the Investment Commission, the Ministry of Economic Affairs of Taiwan, any PRC person is not allowed to invest and operate such business in Taiwan. Because a game publisher is in the business of software publication, which is not listed in the Positive List, a PRC mobile game publisher, defined as any game publisher incorporated in PRC or controlled by PRC persons, is not allowed to establish operational presence in Taiwan or to conduct operations servicing the Taiwanese market from the PRC.

Therefore, any PRC mobile game publisher must engage a Taiwanese distributor, also referred to as an agent by the Ministry of Economic Affairs of Taiwan (the “**MOEA**”), to register with MOEA, proving that the games are operated and marketed through the local agent. On May 12, 2017, MOEA promulgated the Procedure of Registering the Agent Information for the PRC Game (大陸遊戲登載代理資訊作業流程) under the Cross-Strait Relation Act, which requires Taiwanese agents to submit agent operation statements along with server connection test reports issued by an MOEA-recognized firm, demonstrating that all operations of a mobile game developed by a PRC mobile game publisher are not connected to any PRC server when applying for agent registration. In addition, no marketing, promotion and operation activities are permitted before the MOEA agent registration is completed.

The Protection of Children and Youths Welfare and Rights Act (兒童及少年福利與權益保障法, the “Children Protection Act”)

According to Article 44 of the Children Protection Act and the Regulations for Management of Game Software Rating (遊戲軟體分級管理辦法, the “**Rating Regulations**”) promulgated thereunder, publishers, agencies, lenders, sellers or distributors of the game software or entities or individuals who provide download access or display game software (the “**Rating Obligator**”) shall classify the game software in accordance with the Rating Regulations. Apart from classification, the contents, markings, displays and managements of the game software shall also be consistent with the Rating Regulations.

According to Article 2 of the Rating Regulations, the term “game software” refers to integrated and digital programs of text, sound and visual, music, picture, image or animation which allow users to achieve the purpose of playing by operation of electronic device, but excludes software used in the “electronic game machines” (電子遊戲機) referred to in the Electronic Game Arcade Business Regulation Act (電子遊戲場業管理條例).

According to Article 4 of the Rating Regulations, the classifications of game software are as follows:

- (i) General public (G): people of all ages may access to such software;
- (ii) Protected (P): only people of age six (6) and above may access to such software;
- (iii) Parental guidance for twelve (PG 12): only people of age twelve (12) and above may access to such software;
- (iv) Parental guidance for fifteen (PG 15): only people of age fifteen (15) and above may access to such software; and
- (v) Restricted (R): only people of age eighteen (18) and above may access to such software.

REGULATORY OVERVIEW

According to Article 92 of the Children Protection Act, the competent authority may impose an administrative fine ranging from NT\$50,000 to NT\$250,000 on a Rating Obligator who fails to classify the game software or violates the regulations regarding classifications and contents; from NT\$30,000 to NT\$150,000 on a Rating Obligator who violates the regulations regarding markings; and from NT\$10,000 to NT\$50,000 on a Rating Obligator who violates the regulations regarding displays, and may order the Rating Obligator to rectify such violation within a certain period of time. Administrative fine may be imposed repeatedly for a Rating Obligator's continuous failure to rectify the violation within the period ordered by the competent authority. In the situation subject to an administrative fine ranging from NT\$10,000 to NT\$50,000, the competent authority may also publicly announce the name or title of the Rating Obligator.

In addition, according to Article 10 of the Rating Regulations, all games publishers, agencies or actual providers of the games shall register the classification and the content descriptions on the Rating Inquiry Website of the Digital Entertainment Software (數位娛樂軟體分級查詢網) established by the Industrial Development Bureau (the "IDB"), the MOEA.

The Consumer Protection Act (消費者保護法, the "CPA")

According to Article 17 of the CPA, the competent authorities at the central government may designate certain industries and set forth by public notice the mandatory and prohibitory provisions of standard contracts to be used by the enterprises in such industries. Articles contained in the standard contracts of a company in such industries in violation of the content provided in the mandatory and prohibitory provisions announced by the competent authorities shall be deemed null and void. According to Article 16 of the CPA, if the validity of such standard contracts can be upheld without the null and void portions, the remaining parts of the contracts shall still be valid. Notwithstanding the above, if a standard contract is obviously unconscionable to one of the parties, the entire contract shall be deemed null and void.

The Mandatory and Prohibitory Provisions of Standard Contracts of Online Game Service (網路連線遊戲服務定型化契約應記載及不得記載事項) last amended on October 8, 2018 and the Mandatory and Prohibitory Provisions of Standard Contracts of Online Game Virtual Credits (Card) (線上遊戲點數(卡)定型化契約應記載及不得記載事項) last amended on June 11, 2012 (collectively the "**Mandatory and Prohibitory Provisions**") announced by the competent authority at the central government, the IDB, regulate the provisions of the standard contracts to be used by online game providers. Provisions in a standard contract which contradict with the Mandatory and Prohibitory Provisions shall be deemed null and void and relevant matters shall be governed by the Mandatory and Prohibitory Provisions.

According to Article 56-1 of the CPA, if a standard contract used by an enterprise is in violation of the mandatory and prohibitory provisions of standard contracts announced by the competent authorities at the central government and the enterprise fails to rectify the non-compliance within the period of time ordered by the competent authorities, an administrative fine ranging from NT\$30,000 to NT\$300,000 may be imposed on it. If the enterprise still fails to rectify such non-compliance within the period of time ordered by the competent authorities, consecutive administrative fines ranging from NT\$50,000 to NT\$500,000 may be imposed on it. The administrative fine may be imposed repeatedly for the enterprise's continuous failure to rectify the non-compliance.

REGULATORY OVERVIEW

The Personal Data Protection Act (個人資料保護法, the “PDPA”)

The PDPA is enacted to regulate the collection, processing, use, and international transmit of personal data. To comply with the PDPA, a data subject must be provided with a notice before a data collector collects personal data from him/her. According to Article 8 of the PDPA, the notice shall include the following information:

- (i) the identity of the collector;
- (ii) the purpose of collection;
- (iii) the type of the personal data;
- (iv) how the collected personal data will be used, including the period of time, region, parties to whom the data will be disclosed and methods;
- (v) the data subject’s right to request for checking and reviewing the collected data, obtaining a copy of the collected data, supplementing or amending the collected data, ceasing the collection, processing or use of the collected data and deleting the collected data; and
- (vi) the data subject’s rights and interests that will be affected if he/she elects not to provide his/her personal data.

According to Article 19 of the PDPA, the collection and processing of personal data by an enterprise shall be for the specific purpose(s) and meet any of the following conditions:

- (i) where such collection or processing is in accordance with laws;
- (ii) where there is a contractual or quasi-contractual relationship between the data collector and the data subject, and proper security measures have been adopted by the data collector to ensure the security of the personal data;
- (iii) where the personal data has been disclosed to the public by the data subject or has been made public lawfully;
- (iv) where an academic institution needs the personal data for statistic or academic research for the public interests, provided that such data, as processed by the data provider or as disclosed by the data collector, may not lead to the identification of a specific data subject;
- (v) where consent has been given by the data subject;
- (vi) where it is necessary for furthering the public interest;
- (vii) where the personal data is obtained from publicly available sources unless the data subject has an overriding interest in prohibiting the processing or use of such personal data; or
- (viii) where the rights and interests of the data subject will not be infringed.

REGULATORY OVERVIEW

South Korea

Regulations Relating to the Game Industry

Game Industry Promotion Act

The Game Industry Promotion Act (the “**Game Promotion Act**”) enacted by the National Assembly of South Korea on April 28, 2006, as amended, primarily regulates the game industry in South Korea. Under the Game Promotion Act, any person intending to engage in the development or distribution of games is required to register with the provincial governor, a mayor, a municipal governor (gunsu) or a head of a borough (gucheongjang) and file an amendment registration in the event of any change in material matters in the registration with certain exceptions.

Under the Game Promotion Act, online games are classified into four categories: “suitable for users of all ages,” “suitable for users 12 years of age or older,” “suitable for users 15 years of age or older” and “suitable for users 18 years of age or older.” The Game Promotion Act also requires any person who intends to develop or distribute games for the purpose of publication or supply in the South Korean market to obtain in advance a rating from either (for games intended for users of all ages, 12 years of age or older and 15 years of age or older) the Game Contents Rating Board (the “**GCRB**”) or (for games intended for users of 18 years of age or older) the Game Rating and Administration Committee (the “**GRAC**,” and, together with GCRB, the “**Game Rating Boards**”). The Game Rating Boards are established to safeguard game ethics and the public interest aspect of games and to protect adolescents. A game provider must also report any modification in the content of a game (other than mere technical enhancements not affecting the content) to the relevant Game Rating Board, in which case, the Game Rating Board notifies the game provider either that the rating of the game will be maintained or that the game must be reclassified. If the game provider receives a notice of reclassification from the Game Rating Boards, the game provider must file a new application to obtain a rating of the game.

Under the Game Promotion Act, a self-regulator designated by the Minister of Culture, Sports and Tourism of South Korea, may rate its own games that are distributed through third-party distribution platforms (such as Apple’s App Store or Google Play). Self-rated games rated from a self-regulator will have the same effect as those rated by GCRB or GRAC. In the self-regulation scheme, the game service provider must meet certain statutory criteria to be eligible as a self-regulator. A self-regulator may operate and service mobile games from outside of South Korea if the games are not targeted mainly to users in South Korea, provided that (i) the game does not fall into the category of “suitable for users 18 years of age or older;” (ii) the self-regulator has executed a contract with an overseas distributor regarding the provision of domestic use of the overseas game; (iii) the self-regulator has rated such games; (iv) the self-regulator ensures that users easily recognize the rating given when using overseas games; and (v) the self-regulator notifies GRAC of the rating within five business days from the date on which the self-regulator has rated such games. For self-rated games, any change or update in content and/or ratings is automatically reported to GRAC through a reporting system which will be in place and be linked to GRAC’s system. Every self-regulator is required to implement this reporting system linked to GRAC’s system. Furthermore, self-regulators cannot give an “18 years of age or older” rating and thus must apply to GRAC for a rating to distribute any game for users of 18 years of age or older.

Meanwhile, the Game Promotion Act excludes “Speculative Game Products” from the game products subject to the ratings requirement, and a game which is deemed “Speculative Game Product” is thus not eligible for a rating. Since an unrated game may not be distributed in South Korea, the provision or

REGULATORY OVERVIEW

distribution of a “Speculative Game Product” is thus illegal in South Korea. Typical examples of a “Speculative Game Product” are casino-style games, and the key factor in determining whether a particular online game constitutes a “Speculative Game Product” is whether playing the game leads to a “gain or loss of property.” While “Speculative Game Products” are per se illegal, game products with “speculative elements” that do not fall under the definition of “Speculative Game Products” may be eligible for a rating.

In rating the game products as “Speculative Game Products” or having “speculative elements,” the game’s content in their totality is examined. “Speculative Game Product” is defined as a game resulting in a gain or a loss of property and has aspects of (i) betting or allotment, (ii) chances to determine the outcome, (iii) horse racing or any game based on horse racing, (iv) cycling and boat racing and any game based on cycling and boat racing, (v) casino games regulated under the Tourism Promotion Act and any game based on casinos, and/or (vi) any other gaming product designated as “Speculative Game Product” under a Presidential Decree. In the context of ratings, the term “speculative element” is not defined but is referred to in the Rating Review Regulations, according to which, if the game provides exchanging virtual property which is gained as the result of game freely or not, into real money, it would be likely to be determined that it has a “speculative element.”

Regulations Relating to Online Services

Under the Telecommunications Business Act (the “TBA”) enacted by the National Assembly of South Korea on 30 December 1983, as amended, telecommunication services are divided into two categories: common telecommunication services such as telephone and online connection (including the business of leasing telecommunication line facilities) and value-added communication services.

Value-added communication services that may be offered may be recognized as an online service provider’s value-added communication services for the purpose of transmitting of intellectual properties among different individuals. In addition, a telecommunication business operator is a provider of information and communication services under the Act on Promotion of Information and Communications Network Utilization and Information Protection, Etc. (the “IT Network Act”) enacted by the National Assembly of South Korea on 12 May 1986, as amended. The IT Network Act requires providers of information and communication services to protect consumer information maintained by such providers. When gathering private information from any user, providers of information and communication services must disclose certain information including the purpose and use of the information gathered pursuant to the IT Network Act. Any use or disclosure of information to a third party beyond the scope notified to the user or agreed in a contract with the user requires the user’s consent. Exceptions to the consent requirement are (i) disclosure for settlement of service charges or (ii) disclosure as required by applicable laws and regulations. In general, if the game developer processes personal data as the data controller, no separate consent would be required in this context. A user may claim damages against any provider of information and communication services for the harm suffered as a result of the provider of information and communication services in breach of the IT Network Act. To avoid liabilities, the provider of information and communication services must prove that such harm was not due to the willful or negligent act of the provider of information and communication services.

REGULATORY OVERVIEW

In addition to the above, the TBA provides that any person who intends to operate a value-added telecommunication business, which would generally include provision of mobile game services, shall report (including cases of reporting through information and telecommunication networks) to the Minister of Science, ICT and Future Planning.

Regulations Relating to Mobile Content and Mobile Commerce Businesses

The Act on Consumer Protection in Electronic Commerce, Etc. (the “**CPEC Act**”) and the Electronic Financial Transactions Act enacted by the National Assembly of South Korea on 30 March 2002, as amended, and 28 April 2006, as amended, respectively, primarily regulate electronic financial businesses in South Korea.

Under the CPEC Act, a business entity that is considering to provide information on the sale of goods or services by means of mail, electronic communication or similar means and selling such goods or services (except for solicitation by phone which is governed by the Act on Door-to-Door Sales, Etc.) is required to file for registration of a mail order distributorship with any of the Fair Trade Commission of South Korea (the “**FTC**”), a relevant provincial governor, a mayor, a municipal governor (gunsu) or a head of a borough (gucheonjang), as applicable.

Under the CPEC Act, necessary measures are required to be taken to maintain the security of consumer information related to electronic settlement services. Consumers are required to be notified when electronic payments are made and to indemnify users for damages resulting from misappropriation of user information by third parties.

United States

Regulations on Trademark

Trademark law in the United States is mainly governed federal statutes, commonly known as the Lanham Act, along with state laws. The Lanham Act governs trademarks, service marks, collective marks, certification marks, and unfair competition. Upon the registration of a trademark, the trademark owner will have the right to exclusively use the trademark for the specific registered goods and services. When a trademark owner files for a trademark, it can be based on use of the trademark or an intent to use the trademark. The priority date will be determined by the earlier date, whether that date is the date of first use or the date the trademark application was first filed. Once the trademark is registered, the trademark owner must maintain the trademark by submitting evidence of use between the fifth and sixth year of registration, and then every ten years after registration.

The test for infringement is whether consumers are likely to be confused by the source, sponsorship, or approval of the goods and services. Although the test varies slightly between federal and state courts located in different jurisdictions, in general the following factors are considered when determining whether there is a likelihood of confusion between two marks: (1) The similarity of the marks in their entirety as to appearance, sound, connotation and commercial impression; (2) The relatedness of the goods or services of the marks; (3) The similarity of the channels of trade; (4) The sophistication of consumers; (5) The number and nature of similar marks in use on similar good; (6) The existence of a valid consent agreement between the parties. When a trademark owner alleges trademark infringement against a defendant, the defendant can raise a number of defenses, including fair use and parody, among others. Trademark rights can be lost through abandonment, improper licensing, or genericide.

REGULATORY OVERVIEW

Regulation on Copyright

Copyright law in the U.S. is primarily governed by federal statute, namely the Copyright Act of 1976. In the United States, computer programs are literary works, under the definition in the Copyright Act. Copyright for computer programs prohibits not only literal copying, but also copying of “nonliteral elements,” such as program’s structure, sequence and organization. These non-literal aspects, however, can be protected only “to the extent that they incorporate authorship in programmer’s expression of original ideas, as distinguished from the ideas themselves.” In *Computer Associates vs Altai*, the Second Circuit proposed the Abstraction-Filtration-Comparison test (the “**AFC test**”) for identifying these protected elements. The AFC test is a three-step process for determining substantial similarity of the non-literal elements of a computer program. The process requires the court to first identify the increasing levels of abstraction of the program. Then, at each level of abstraction, material that is not protectable by copyright is identified and filtered out from further examination. The final step is to compare the defendant’s program to the plaintiff’s, looking only at the copyright-protected material as identified in the previous two steps, and determine whether the plaintiff’s work was copied. In addition, the court will assess the relative significance of any copied material with respect to the entire program.

It is not necessary to register an authored work for it to be protected by copyright law. However, the Copyright Act does provide additional benefits to those who register with the Copyright Office. The effect of copyright registration is to place on record a verifiable account of the date and content of the work in question, so that in the event of a legal claim, or case of infringement or plagiarism, the copyright owner can produce a copy of the work from an official government source.

Regulations on Data Protection and Privacy

In the United States, there is no single nationwide law regulating the collection and use of personal data, while there are numerous different federal and state laws which address particular industries or issues, and businesses should take notice of both the applicable federal and state laws. However, the most prominent authority is the Federal Trade Commission (“**FTC**”), which is the government agency that works to protect consumers by preventing deceptive and unfair business practices. The FTC uses its authority to pursue companies that fail to implement reasonable data security measures, fail to abide by its privacy policies, and for the unauthorized disclosure of personal data. The FTC defines personal data as any information that can reasonably be used to contact or distinguish a person, including device identifiers and IP addresses. Examples of sensitive personal data include financial data and any information that can be used to carry out identity theft or fraud. In addition, there are many more industry regulators which have authority to issue and enforce privacy regulations. Examples of such regulations include the requirement to take reasonable technical, physical, and organizational measures to protect the security of sensitive personal information and security breach notification requirements. Violations of such requirements are enforced by the FTC, the government, or the regulator for the industry in question.

Regulations on Children’s Privacy

The Children’s Online Privacy Protection Act of 2000 (“**COPPA**”) enacted by the United States Congress applies to operators of commercial websites and online services that (1) are directed to or targeted to children under the age of 13 and through which the operator collects, uses, or discloses personal information from children under 13; and (2) through which the operator has actual knowledge

REGULATORY OVERVIEW

that it collects, uses, or discloses personal information from children under the age of 13. The FTC, which has authority to enforce COPPA, has explicitly stated that “network-connected games” are considered to be online services.

Among other requirements, operators subject to COPPA must provide parents with a notice about the website or online service’s practices with regard to collecting personal information from children under 13, obtain the parents’ consent to such collection of personal information, give parents a choice as to whether their child’s personal information will be disclosed to third parties, and provide parents with the opportunity to delete their child’s personal information. In addition, operators may not condition a child’s participation in a game on the child’s disclosing more personal information than is reasonably necessary to participate in that activity and must maintain the confidentiality, security, integrity of children’s personal information.

REGULATIONS ON INFORMATION SECURITY AND PRIVACY PROTECTION

On December 28, 2000, the Standing Committee of the PRC National People’s Congress (the “SCNPC”) enacted the Decisions on Maintaining Internet Security (關於維護互聯網安全的決定), later amended on August 27, 2009, specifies the situations subject the violators to criminal punishment in China. Pursuant to Administrative Measures for the Security Protection of Computer Information Networks Linked to the Internet (計算機信息網絡國際聯網安全保護管理辦法) which was approved by the State Council on December 11, 1997 and promulgated by the MPS on December 16, 1997 and revised by the State Council on January 8, 2011, the internet is prohibited to be used in ways which, among other things, would result in a leakage of state secrets or a spread of socially destabilizing content.

The Provisions on the Technical Measures for the Protection of the Security of the Internet (互聯網安全保護技術措施規定) which was promulgated by the MPS on December 13, 2005 and became effective on March 1, 2006, requires internet service providers to take proper measures including anti-virus, data back-up and other related measures, to keep records of certain information about its users (including user registration information, log-in and log-out time, IP address, content and time of posts by users) for at least 60 days, and to detect illegal information in the public information services, stop transmission of such information, and keep relevant records. Pursuant to Circular of the MPS, the State Secrecy Bureau, the State Cipher Code Administration and the Information Office of the State Council on Printing and Distributing the Administrative Measures for the Graded Protection of Information Security (公安部、國家保密局、國家密碼管理局、國務院信息工作辦公室關於印發《信息安全等級保護管理辦法》的通知) promulgated on June 22, 2007, the security protection grade of an information system may be classified into the five grades. To newly build an information system of Grade II or above, its operator or user shall, within 30 days after it is put into operation, handle the record-filing procedures at the local public security organ at the level of municipality divided into districts or above of its locality.

PRC governmental authorities have enacted laws and regulations on internet use to protect personal information from any unauthorized disclosure. On December 28, 2012, the SCNPC promulgated the Decision on Strengthening Network Information Protection (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 July 16, 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) which became effective on September 1, 2013 to regulate the collection and use of users’ personal information in the provision of telecommunication services and

REGULATORY OVERVIEW

internet information services in China. Telecommunication business operators and internet service providers are required to establish its own rules for collection and use of users' information and cannot collect or use users' information without users' consent. Telecommunication business operators and internet service providers are prohibited from disclosing, tampering with, destroying, selling or illegally providing others with, collected personal information.

On November 7, 2016, the SCNPC published the Cyber Security Law of the PRC (中華人民共和國網絡安全法) (the “**Cyber Security Law**”), which took effect on June 1, 2017 and requires network operators to perform certain functions related to cyber security protection and the strengthening of network information management. For instance, under the Cyber Security Law, network operators of key information infrastructure shall store within the territory of the PRC all the personal information and important data collected and produced within the territory of PRC and their purchase of network products and services that may affect national securities shall be subject to national cybersecurity review. In May 2, 2017, the State Internet Information Office issued the Measures for the Security Review of Network Products and Services (for Trial Implementation) (網絡產品和服務安全審查辦法(試行)), which took effect on June 1, 2017, to provide for more detailed rules regarding cybersecurity review requirements.

REGULATIONS ON THE INTELLECTUAL PROPERTY

Trademark

Trademarks are protected by the Trademark Law of the PRC (中華人民共和國商標法) which was promulgated on August 23, 1982 and subsequently amended on February 22, 1993, October 27, 2001, August 30, 2013 and April 23, 2019, respectively as well as the Implementation Regulation of the PRC Trademark Law (中華人民共和國商標法實施條例) adopted by the State Council on August 3, 2002 and revised on May 1, 2014. In China, registered trademarks include commodity trademarks, service trademarks, collective marks and certification marks.

The Trademark Office of National Intellectual Property Administration (國家知識產權局商標局) handles trademark registrations and grants a term of ten years to registered trademarks, renewable every ten-years where a registered trademark needs to be used after the expiration of its validity term. When it is necessary to continue using the registered trademark upon expiration of period of validity, an application for renewal shall be made within 12 months before the expiration. If such an application cannot be filed within that period, an extension period of six months may be granted. The period of validity for each renewal of registration shall be ten years as of the next day of the previous period of validity. If the formalities for renewal have not been handled upon expiration of period of validity, the registered trademarks will be deregistered.

Patent

According to the Patent Law of the PRC (中華人民共和國專利法) promulgated by the SCNPC on March 12, 1984 and subsequently amended on September 4, 1992, August 25, 2000, and December 27, 2008, respectively and the Rules for the Implementation of the Patent Law of the PRC (中華人民共和國專利法實施細則) (the “**Patent Implementation Rules**”) promulgated by the State Council on June 15, 2001 and subsequently amended on December 28, 2002 and January 9, 2010, the Patent Administration Department of National Intellectual Property Administration (國家知識產權局專利局) is responsible for administering patents in the PRC. The patent administration departments of provincial or autonomous

REGULATORY OVERVIEW

regions or municipal governments are responsible for administering patents within their respective jurisdictions. The Patent Law of the PRC and the Patent Implementation Rules provide for three types of patents, “invention,” “utility model” and “design.” Invention patents are valid for twenty years, while design patents and utility model patents are valid for ten years, from the date of application. The Chinese patent system adopts a “first come, first file” principle, which means that where more than someone files a patent application for the same invention, a patent will be granted to the person who files the application first. To be patentable, invention or utility models must meet three criteria: novelty, inventiveness and practicability.

According to the Patent Law of the PRC, any entity or individual that seeks to exploit a patent owned by another party shall enter into a patent license contract with the patent owner concerned and pay patent royalties to the patent owner. The licensee does not have the right to allow any entity or individual not specified in the contract to exploit such patent.

Copyright

The Copyright Law of the PRC (中華人民共和國著作權法) (the “**Copyright Law**”) promulgated by the SCNPC on September 7, 1990 and last amended on February 26, 2010 provides that Chinese citizens, legal persons, or other organizations shall, whether published or not, enjoy copyright in their works which include, among others, works of literature, art, natural science, social science, engineering technology and computer software. The purpose of the Copyright Law aims to encourage the creation and dissemination of works which is beneficial for the construction of socialist spiritual civilization and material civilization and promote the development and prosperity of Chinese culture.

Under the Regulation on Protection of the Right to Network Dissemination of Information (信息網絡傳播權保護條例) that took effect on July 1, 2006 and was amended on January 30, 2013, it is further provided that an internet information service provider may be held liable under various situations, including if it knows or should reasonably have known a copyright infringement through the internet and the service provider fails to take measures to remove or block or disconnects links to the relevant content, or, although not aware of the infringement, the internet information service provider fails to take such measures upon receipt of the copyright holder’s notice of infringement. The internet information service provider may be exempted from indemnification liabilities under the certain circumstances.

The Computer Software Protection Regulations (計算機軟件保護條例) which was promulgated by the State Council on December 20, 2001 and amended on January 8, 2011 and January 30, 2013 provides for the rights of software copyright owners and relevant matters associated with the protection, registration, licensing and transfer of software copyright, and stipulates that software copyright owners may obtain registration from the software registration authority acknowledged by the copyright administrative department under the State Council. The registration certificate issued by the software registration authority shall be the preliminary evidence for the registration. The Computer Software Copyright Registration Measures (計算機軟件著作權登記辦法) which was promulgated by the NCA on February 20, 2002 regulates the registrations of software copyright, exclusive licensing contracts for software copyright and transfer contracts. The NCA shall be the competent authority for the nationwide administration of software copyright registration and the Copyright Protection Centre of China is designated as the software registration authority.

REGULATORY OVERVIEW

Domain Name

Internet domain name registration and related matters are primarily regulated by the Measures on Administration of Domain Names for the Chinese Internet (中國互聯網絡域名管理辦法), issued by MII on November 5, 2004 and effective as of December 20, 2004 which was replaced by the Measures on Administration of Internet Domain Names (互聯網域名管理辦法) issued by the MIIT on August 24, 2017 and effective as of November 1, 2017, and the Implementing Rules on Registration of Domain Names (中國互聯網絡信息中心域名註冊實施細則) issued by China Internet Network Information Center on May 28, 2012, which became effective on May 29, 2012. Domain name registrations are handled through domain name service agencies established under the relevant regulations, and the applicants become domain name holders upon successful registration. On November 27, 2017, the MIIT issued Circular on Regulating the Use of Domain Names for Internet Information Services (關於規範互聯網信息服務使用域名的通知), effective as of January 1, 2018, pursuant to which an internet access service provider shall, pursuant to requirements stated in the Anti-terrorism Law of the PRC (中華人民共和國反恐怖主義法) and the Cyber Security Law, verify the identity of each internet information service provider, and shall not provide services to any internet information service provider that refuses to submit truthful information about its identity.

REGULATIONS ON FOREIGN ENTERPRISES

Company Law of the PRC

The Company Law of the PRC (中華人民共和國公司法) (the “**Company Law**”), which was promulgated by the SCNPC on December 29, 1993 and became effective on July 1, 1994, and subsequently amended on December 25, 1999, August 28, 2004, October 27, 2005, December 28, 2013 and October 26, 2018, provides that companies established in the PRC may take form of company of limited liability or company limited by shares. Each company has the status of a legal person and owns its assets itself. Assets of a company may be used in full for the company’s liability. The Company Law applies to foreign-invested companies unless relevant laws provide otherwise.

Wholly Foreign-Owned Enterprise Law of the PRC and its Implementation Measures

The 2019 FIL was adopted by the National People’s Congress on March 15, 2019 and became effective on January 1, 2020. The 2019 FIL is formulated to further expand opening-up, vigorously promote foreign investment and protect the legitimate rights and interests of foreign investors and replaces the Sino-Foreign Equity Joint Venture Enterprise Law of the PRC (中華人民共和國中外合資經營企業法), the Sino-Foreign Cooperative Joint Venture Enterprise Law of the PRC (中華人民共和國中外合作經營企業法) and the Wholly Foreign-Owned Enterprises Law of the PRC (中華人民共和國外資企業法) to become the legal foundation for foreign investment in the PRC.

Pursuant to the 2019 FIL, foreign investments are entitled to pre-entry national treatment and are subject to negative list management system. The pre-entry national treatment means that the treatment given to foreign investors and their investments at the stage of investment access is not lower than that of domestic investors and their investments. The negative list management system means that the State implements special administrative measures for access of foreign investment in specific fields. Foreign investors shall not invest in any forbidden fields stipulated in the negative list and shall meet the conditions stipulated in the negative list before investing in any restricted fields.

REGULATORY OVERVIEW

Foreign investors' investment, earnings and other legitimate rights and interests within the territory of the PRC shall be protected in accordance with the law, and all national policies on supporting the development of enterprises shall equally apply to foreign-invested enterprises. The State guarantees that foreign-invested enterprises participate in the formulation of standards in an equal manner. The State guarantees that foreign-invested enterprises participate in government procurement activities through fair competition in accordance with the law. The State shall not expropriate any foreign investment except under special circumstances. In special circumstances, the State may levy or expropriate the investment of foreign investors in accordance with the law for the needs of the public interest. The expropriation and requisition shall be conducted in accordance with legal procedures and timely and reasonable compensation shall be given. In carrying out business activities, foreign-invested enterprises shall comply with relevant provisions on labor protection, social insurance, tax, accounting, foreign exchange and other matters stipulated in the PRC laws and regulations.

On December 26, 2019, the State Council promulgated the Implementing Regulations, which took effect on January 1, 2020, reiterated and detailed the 2019 FIL. Pursuant to the Implementing Regulations, Foreign-invested enterprises established in accordance with the Sino-Foreign Equity Joint Venture Enterprise Law of the PRC, the Sino-Foreign Cooperative Joint Venture Enterprise Law of the PRC and the Wholly Foreign-Owned Enterprises Law of the PRC (hereinafter referred to as the "Existing Foreign-invested Enterprise") prior to the implementation of the 2019 FIL may adjust their organizational forms, organizational structures, etc. within five years after the implementation of the 2019 FIL pursuant to the Company Law, the Partnership Enterprise Law of the PRC and other relevant laws and go through change of registration procedures pursuant to the law. Alternatively, they may choose to retain their current organizational forms, organizational structures, etc. With effect from January 1, 2025, as regards an Existing Foreign-invested Enterprise that fails to adjust its organizational form, organizational structure, etc. pursuant to the law and go through change of registration procedures, the relevant administration for market regulation shall not process other registration matters applied for by the said enterprise, and shall make public relevant circumstances.

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 January 1, 1995 and amended on August 27, 2009 and December 29, 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 January 1, 2008 and was amended on December 28, 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 contracts, which are to be drawn up in accordance with the collective contract. The Labor Contract Law has enhanced rights for employees, including permitting labor contracts without a fixed term and economic compensation. 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.

REGULATORY OVERVIEW

Social Insurance and Housing Provident Funds

As required under the Regulation of Insurance for Work-related Injury (工傷保險條例), amended on December 20, 2010 and came into effect on January 1, 2011, the Provisional Measures for Maternity Insurance of Employees of Corporations (企業職工生育保險試行辦法) implemented on January 1, 1995, the Decisions on the Establishment of a Unified Program for Old-Aged Pension Insurance of the State Council (國務院關於建立統一的企業職工基本養老保險制度的決定) issued on July 16, 1997, the Decisions on the Establishment of the Medical Insurance Program for Urban Workers of the State Council (國務院關於建立城鎮職工基本醫療保險制度的決定) promulgated on December 14, 1998, the Unemployment Insurance Measures (失業保險條例) promulgated on January 22, 1999, the Interim Regulation on the Collection and Payment of Social Insurance Premiums (社會保險費徵繳暫行條例) promulgated on January 22, 1999 and amended on March 24, 2019, the Interim Provisions on Registration of Social Insurance (社會保險登記管理暫行辦法) promulgated on March 19, 1999, and the Social Insurance Law of the PRC (中華人民共和國社會保險法) implemented on July 1, 2011 and amended on December 29, 2018, enterprises are obliged to provide their employees in the PRC with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, work-related injury insurance and medical insurance. Enterprises must apply for social insurance registration with local social insurance agencies and pay premiums for their employees. If an enterprise fails to pay the required premiums on time or in full amount, the authorities in charge will demand the enterprise to settle the overdue amount within a stipulated time period and impose a daily overdue fine equivalent to 0.05% of the overdue amount. If the overdue amount is still not settled within the stipulated time period, an additional fine with an amount of one to three times of the overdue amount will be imposed.

According to the Regulation on Management of Housing Provident Fund (住房公積金管理條例), which was promulgated by the State Council on April 3, 1999, became effective on the same day and was amended on March 24, 2002 and March 24, 2019, enterprises must register with the competent managing centre for housing provident funds and, upon the examination by such managing centre of housing provident fund, complete procedures for opening an account at the relevant bank for the deposit of employees' housing provident funds. Employers are required to contribute, on behalf of their employees, to housing provident funds. The payment is required to be made to the special housing accumulation fund account in a bank. Any employer who fails to contribute may be ordered to make good the deficit within a stipulated time limit or applied to a People's Court for compulsory enforcement by local administrative authorities.

REGULATIONS ON TAXATION

EIT

On March 16, 2007, the National People's Congress promulgated the EIT Law, which was amended on February 24, 2017 and December 29, 2018, and the State Council promulgated the Regulations for the Implementation of the Law on Enterprise Income Tax of the PRC (中華人民共和國企業所得稅法實施條例) (the "EIT Regulations") on December 6, 2007 which was further amended on April 23, 2019. According to the EIT Law and the EIT Regulations, taxpayers consist of resident enterprises and non-resident enterprises. Resident enterprises are defined as enterprises that are established in China in accordance with the PRC laws, or that are established in accordance with the laws of foreign countries but whose actual or de facto control is administered from within the PRC. Non-resident enterprises are defined as enterprises that are set up in accordance with the laws of foreign countries and whose actual

REGULATORY OVERVIEW

administration is conducted outside the PRC, but have established institutions or premises in the PRC, or have no such established institutions or premises but have income generated from inside the PRC. According to Circular 82 issued by the SAT in April 2009, an offshore-incorporated enterprise controlled by a PRC enterprise or a PRC enterprise group will be regarded as a PRC tax resident by virtue of having its “de facto management body” in China and will be subject to PRC enterprise income tax on its global income if all of the following conditions are met: (i) the primary location of the day-to-day operational management is in the PRC; (ii) decisions relating to the enterprise’s financial and human resource matters are made or are subject to approval by organizations or personnel in the PRC; (iii) the enterprise’s primary assets, accounting books and records, company seals and board and shareholder resolutions are located or maintained in the PRC; and (iv) at least 50% of voting board members or senior executives habitually reside in the PRC. Under the EIT Law and the EIT Regulations and relevant implementing regulations, a uniform corporate income tax rate of 25% is applicable. However, if non-resident enterprises have not formed permanent establishments or premises in the PRC, or if they have formed permanent establishment institutions or premises in the PRC but there is no actual relationship between the relevant income derived in the PRC and the established institutions or premises set up by them, the EIT is, in that case, set at the rate of 10% for their income sourced from inside the PRC.

According to the EIT Law and the EIT Regulations, an enterprise certified as a high and new technology enterprise was subject to a preferential EIT of 15%. In accordance with the Measures for Administration of Recognition of High and New Technology Enterprise (高新技術企業認定管理辦法) effective from January 1, 2008 and amended on January 29, 2016, an enterprise certified as a high and new technology enterprise is subject to review by the relevant PRC authorities and shall submit the information about the relevant intellectual property, scientific and technical personnel, research and development expense, operating revenue of previous year and other annual status on the required official website.

The Notice on Income Tax Policies for Further Encouraging the Development of Software Industry and Integrated Circuit Industry (關於進一步鼓勵軟件產業和集成電路產業發展企業所得稅政策的通知) (the “**2012 Policy**”), which was promulgated by the MOF and the SAT on April 20, 2012 and amended on May 4, 2016 and the Notice on Issues concerning Preferential Enterprise Income Tax Policies for Software and Integrated Circuit Industries (關於軟件和集成電路產業企業所得稅優惠政策有關問題的通知) (the “**2016 Policy**”) promulgated by the MOF, the SAT, the NDRC and the MIIT on May 4, 2016, provide that newly established integrated circuit design enterprises and eligible software enterprises shall be exempt from the EIT for the first two years of the preferential period, and shall be levied thereon at half of the statutory rate of 25% for the next three years until the expiration of the preferential period. If Key Software Enterprises included in the national plan do not enjoy the tax exemption preference in the current year, they shall be subject to the EIT at a reduced rate of 10%. On May 17, 2019, the MOF and the SAT issued the Notice on Enterprise Income Tax Policies for the Integrated Circuit Design and Software Industries (關於集成電路設計和軟件產業企業所得稅政策的公告) (the “**2018 Policy**”), which also provides that legally established and eligible integrated circuit design enterprises and software enterprises shall be exempted from the enterprise income tax for the first and second year after it makes profits and shall be levied thereon at half of the statutory rate of 25% for the third to fifth year until the expiration of the preferential period. The preferential period shall be calculated from the profitable year prior to December 31, 2018. The 2018 Policy further provides that the eligibility criteria set out in 2012 Policy and the 2016 Policy will continue to apply.

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 November 19, 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 MOF and last amended on October 28, 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 the VAT.

On November 16, 2011, the MOF 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 January 1, 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 May 6, 2016 by the SAT and revised on June 15, 2018, 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 March 23, 2016, the MOF and the SAT jointly issued the Circular of Full Implementation of Business Tax to Value-added Tax Reform (關於全面推開營業稅改徵增值稅試點的通知) which confirms that business tax will be completely replaced by the VAT from May 1, 2016.

Pursuant to the Notice of the MOF and the SAT on the Adjustment to Value-added Tax Rates (關於調整增值稅稅率的通知) issued on April 4, 2018 and came into effect on May 1, 2018, the deduction 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.

Dividend Tax

Individual Investors

According to the Individual Income Tax Law of the PRC (中華人民共和國個人所得稅法) promulgated on September 10, 1980, as amended on October 31, 1993, August 30, 1999, October 27, 2005, June 29, 2007, December 29, 2007, June 30, 2011 and August 31, 2018, and the Provision for Implementation of the Individual Income Tax Law (中華人民共和國個人所得稅法實施條例) promulgated on January 28, 1994, as amended on December 19, 2005, February 18, 2008, July 19, 2011 and December 18, 2018, dividends declared by PRC companies to individuals are ordinarily subject to a PRC withholding tax levied at a flat rate of 20%. For a foreign individual who is not a resident of the PRC, the receipt of dividends from a company in the PRC is normally subject to a withholding tax of 20% unless specifically exempted by the tax authority of the State Council or reduced by an applicable tax treaty.

REGULATORY OVERVIEW

Enterprises

According to the EIT Laws, a non-resident enterprise is subject to a 10% EIT on the income sourced from the PRC provided that such non-resident enterprise does not have an establishment or place in the PRC, or where there is an establishment or place, there is no connection between the income received and such establishment or place. The aforesaid income tax payable by the non-resident enterprises shall be withheld at source, for which the payer thereof shall be the withholding agent. Such withholding tax may be reduced pursuant to an applicable avoidance of double taxation treaty or arrangement.

Tax Treaties

Pursuant to the Arrangement Between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation on Income (內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排) (the “**Hong Kong Double Tax Avoidance Arrangement**”) and other applicable PRC laws, if a Hong Kong resident enterprise is determined by the competent PRC tax authority to have satisfied the relevant conditions and requirements under the Hong Kong Double Tax Avoidance Arrangement and other applicable laws, the 10% withholding tax on the dividends that the Hong Kong resident enterprise receives from a PRC resident enterprise may be reduced to 5% if the Hong Kong resident holds more than 25% capital of the PRC resident enterprise.

Pursuant to the Notice on the Several Issues of the Implementation of Tax Treaty (關於執行稅收協定股息條款有關問題的通知), which was promulgated by the SAT and came into effect on February 20, 2009, the non-resident taxpayer or the withholding agent is required to obtain and keep sufficient documentary evidence proving that the recipient of the dividends meets the relevant requirements for enjoying a lower withholding tax rate under a tax treaty. Pursuant to the Administrative Measures for Tax Convention Treatment for Non-resident Taxpayers (非居民納稅人享受稅收協定待遇管理辦法), which was promulgated by the SAT on August 27, 2015 and further amended on June 15, 2018, any non-resident taxpayer fulfilling conditions for enjoying the convention treatment may be entitled to the convention treatment on its own when filing a tax return or making a withholding declaration through a withholding agent, subject to the subsequent administration by the tax authorities.

The Announcement of the State Administration of Taxation on Issues Relating to “Beneficial Owner” in Tax Treaties (國家稅務總局關於稅收協定中“受益所有人”有關問題的公告) (the “**Announcement of Beneficial Owner**”) issued by the SAT on February 3, 2018 and came into effect on April 1, 2018. The Announcement of Beneficial Owner provided that the “beneficial owner” shall mean a person who has ownership and control over the income and the rights and property from which the income is derived. When an individual who is a resident of the treaty counterparty derive dividend income from China, the individual may be determined as a “beneficial owner.”

On November 27, 2014, the State Council promulgated the Notice on Cleaning up and Standardizing Taxation and Other Preferential Policies (關於清理規範稅收等優惠政策的通知), which requires that all regions and departments shall not introduce preferential fiscal policies for enterprises without the approval of the State Council. Preferential policies on fiscal expenditure pegged to the payment of tax or non-tax revenue by enterprises and their investors (or managers) that are formulated in violation of laws and regulations, including the policies of refunding tax payment after levy, listing fictitious revenue and expenditure, granting fiscal rewards or subsidies, reducing or waiving land transfer incomes by making payment on behalf of enterprises, granting subsidies or other forms, etc. shall be resolutely abolished. On May 10, 2015, the State Council further circulated the Notice of on Issues concerning Taxation and

REGULATORY OVERVIEW

Other Preferential Policies (關於稅收等優惠政策相關事項的通知), which requires that preferential policies already promulgated by different regions or departments shall be applicable according to their respective prescribed period of implementation, if any. Where such a policy has no prescribed period of implementation and genuinely needs to be adjusted, the local government or department concerned shall set aside a transition period according to the principle of ensuring policy stability by properly managing the pace of change, and continue to implement the said policy during the transition period. Preferential policies contained in the contracts signed by different regions with enterprises shall remain effective, and the aspects already performed thereunder shall not be retroactive. When all regions and departments formulate and promulgate new preferential policies in the future, except for matters already prescribed by laws and administrative regulations, the new preferential policies that involve tax revenue or non-tax revenue instituted upon approval by the Central Committee shall be reported to the State Council for approval before implementation, while all the other such new preferential policies shall be implemented after approval by local governments and relevant departments. Specifically, expenditure arrangements shall, in general, not be pegged to the tax revenue or non-tax revenue contributed by enterprises.

Laws and Regulations Related to Dividend Distribution

The principal laws and regulations regulating the dividend distribution of dividends by foreign-invested enterprises in China include the Company Law last amended in 2018, the Wholly Foreign-owned Enterprises Law of the PRC promulgated in 1986 and last amended in 2016, the Sino-Foreign Equity Joint Venture Enterprise Law of the PRC promulgated in 1979 and last amended in 2016, and the Sino-Foreign Cooperative Joint Venture Enterprise Law of the PRC promulgated in 1988 and last amended in 2017. The Wholly Foreign-owned Enterprises Law of the PRC, the Sino-Foreign Equity Joint Venture Enterprise Law of the PRC and the Sino-Foreign Cooperative Joint Venture Enterprise Law of the PRC were replaced by the 2019 FIL on January 1, 2020. Under the current regulatory regime in the PRC, foreign-invested enterprises in the PRC may pay dividends only out of their accumulated profit, if any, determined in accordance with PRC accounting standards and regulations. A PRC company is required to set aside as general reserves (法定公積金) 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. A PRC company shall not distribute any profits until any losses from prior fiscal years have been offset. Profits retained from prior fiscal years may be distributed together with distributable profits from the current fiscal year. Wholly foreign-owned companies may, at their discretion, allocate a portion of their after-tax profits based on PRC accounting standards to staff welfare and bonus funds. These reserves are not distributable as cash dividends.

REGULATIONS ON FOREIGN EXCHANGE

Under the Foreign Currency Administration Rules of the PRC (中華人民共和國外匯管理條例) which was promulgated on January 29, 1996 and last amended on August 5, 2008 and various regulations issued by the SAFE and other relevant PRC government authorities, RMB is convertible into other currencies for the purpose of current account items, such as trade related receipts and payments, payment of interest and dividends. The conversion of RMB into other currencies and remittance of the converted foreign currency outside the PRC for the purpose of capital account items, such as direct equity investments and loans, requires the prior approval from the SAFE or its local office. Foreign exchange income under the current accounts may be retained or sold to a financial institution engaging in settlement and sale business of foreign exchange pursuant to relevant rules and regulations of the PRC. For foreign exchange income under the capital accounts, approval from the relevant foreign

REGULATORY OVERVIEW

exchange administrative authority is required for its retention or sale to a financial institution engaging in settlement and sale business of foreign exchange, except where such approval is not required under the relevant rules and regulations of the PRC.

On July 4, 2014, the SAFE issued the Circular 37. Pursuant to the Circular 37, if a domestic individual resident directly establishes or indirectly controls an offshore enterprise (the “**SPV**”) with his/her legally owned assets or equity in a domestic enterprise, or legally owned offshore assets or equity, for the purpose of offshore investment and financing, he/she shall complete the foreign exchange registration of overseas investments with the SAFE or its local branches before making contributions to the SPV with his/her legally owned onshore and offshore assets or equity. Following the initial registration, any change of basic information such as individual shareholder, name and term of operation or upon capital increase or deduction, share transfer or swap, merger or division and other significant change, shall report to the SAFE for foreign exchange alteration of the registration formality for offshore investment in time. According to the Circular 13 which became effective on June 1, 2015, banks are required to review and carry out foreign exchange registration under offshore direct investment directly. The SAFE and its branches shall implement indirect supervision over foreign exchange registration of direct investment via the banks. In addition, according to the procedural guidelines as attached to the Circular 13, the principle of review has been changed to “the domestic individual resident is only required to register the SPV directly established or controlled by him (first level).”

On March 30, 2015, the SAFE promulgated the Circular on Reforming the Management Approach regarding the Settlement of Foreign Capital of Foreign-invested Enterprise (關於改革外商投資企業外匯資本金結匯管理方式的通知) (the “**Circular 19**”) to expand the reform nationwide. Circular 19 allows foreign-invested enterprises to make equity investments by using Renminbi fund converted from foreign exchange capital. Under the Circular 19, the foreign exchange capital in the capital account of foreign-invested enterprises upon the confirmation of rights and interests of monetary contribution by the local foreign exchange bureau (or the book-entry registration of monetary contribution by the banks) can be settled at the banks based on the actual operation needs of the enterprises. The proportion of discretionary settlement of foreign exchange capital of foreign-invested enterprises is currently 100%. SAFE can adjust such proportion in due time based on the circumstances of the international balance of payments. However, Circular 19 and the Circular on Reforming and Regulating Policies on the Control over Foreign Exchange Settlement of Capital Accounts (關於改革和規範資本項目結匯管理政策的通告) continues to prohibit foreign-invested enterprises from, among other things, using Renminbi fund converted from its foreign exchange capitals for expenditure beyond its business scope, investment and financing (except for security investment or guarantee products issued by banks), providing loans to non-affiliated enterprises or constructing or purchasing real estate not for self-use.

On January 26, 2017, the SAFE promulgated the Circular on Further Improving Reform of Foreign Exchange Administration and Optimizing Genuineness and Compliance Verification (關於進一步推進外匯管理改革完善真實合規性審核的通知) (the “**Circular 3**”), which stipulates several capital control measures with respect to the outbound remittance of profit from domestic entities to offshore entities, including (i) when bank handles outward remittance of profits equivalent to more than USD50,000 for a domestic institution shall, under the principle of genuine transaction, banks shall check board resolutions regarding profit distribution, the original version of tax filling records and audited financial statements, and (ii) domestic entities shall hold income to account for previous years’ losses before remitting the

REGULATORY OVERVIEW

profits. Moreover, pursuant to the Circular 3, domestic entities shall make detailed explanations of the sources of capital and utilization arrangements, and provide board resolutions, contracts and other proof when completing the registration procedures in connection with an outbound investment.

On October 23, 2019, the SAFE promulgated the Circular on Further Promoting the Facilitation of Cross-border Trade and Investment (關於進一步促進跨境貿易投資便利化的通知) (the “**Circular 28**”), which cancelled the restriction on domestic equity investment of capital funds by non-investment foreign-invested enterprises. Pursuant to the Circular 28, on the basis of allowing investment-oriented foreign-invested enterprises (including foreign-invested investment companies, foreign-invested venture capital enterprises and foreign-invested equity investment enterprises) to use capital funds for domestic equity investment in accordance with laws and regulations, non-investment foreign-invested enterprises shall be allowed to use capital funds for domestic equity investment in accordance with the laws under the premise of not violating the existing special management measures for entry of foreign investment (negative list) and the authenticity and compliance of their domestic invested projects.

REGULATIONS RELATING TO M&A AND OVERSEAS LISTING

The M&A Rules was jointly promulgated by six PRC governmental authorities including the MOFCOM, the SAT, the SAFE, the SAIC, the State-owned Assets Supervision and Administration Commission of the State Council and the CSRC on August 8, 2006, and amended on June 22, 2009. Foreign investors must 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 of the nature of the domestic company into a foreign-invested enterprise; or when the foreign investors establish a foreign-invested enterprise in China, purchase the assets of a domestic company and operate the asset; or when the foreign investors purchase the assets of a domestic company by agreement, establish a foreign-invested enterprise by injecting such assets, and operate the assets. According to Article 11 of the M&A Rules, where a domestic enterprise, or a domestic natural person, through an overseas company established or controlled by it/him/her, acquires a domestic enterprise which is related to or connected with it/him/her, approval from the MOFCOM is required. 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 acquires shares of or equity interests in the PRC companies in exchange for the shares of offshore companies.

HISTORY AND REORGANIZATION

OVERVIEW

Mr. Li Qing, our founder, chairman, executive Director and chief executive officer, graduated from Tsinghua University (清華大學) and participated in the founding of our predecessor Archosaur Studio (祖龍工作室) as a start-up enterprise in 1997. Between 2000 and 2004, Archosaur Studio (祖龍工作室) was incubated by the founder of Perfect World Group to develop online games and was subsequently merged with the Perfect World Group in March 2004, where Mr. Li Qing served as chief development officer. With more than 10 years' experience in online game development at the Perfect World Group, in September 2014, Mr. Li Qing decided to start his own business and founded our Group to focus on mobile MMORPG development.

Since our inception, we have become a leading game developer in China with proven capabilities in game development and excellent market perception. For more information on our business, see “Business.”

Our Company was incorporated in the Cayman Islands on January 2, 2020. As part of the Reorganization and for the purpose of the Listing, our Company became the ultimate holding company of our various subsidiaries and Consolidated Affiliated Entities. See “— Reorganization.”

OUR BUSINESS MILESTONES

The following sets out our major business development milestones since our inception and up to the Latest Practicable Date:

Year	Event
September 2014	Beijing Fantasy Mermaid was established.
April 2015	We commenced our game development business through Tianjin Loong, one of our Consolidated Affiliated Entities.
October 2015	Our first real 3D MMORPG mobile grand strategy wargame, <i>Loong Craft</i> (六龍爭霸/六龍御天) in the PRC mobile game industry was launched in the PRC, Hong Kong and Taiwan, which was self-developed.
March 2016	<i>Loong Craft</i> (六龍爭霸) was launched in South Korea. Our self-developed 3D MMORPG mobile game, <i>Legend of Nine Tails Fox</i> (青丘狐傳說) was launched in the PRC.
June 2016	Our self-developed client game, <i>Legend of Shushan</i> (蜀山縹緲錄) was launched in the PRC.
July 2016	Our oriental fantasy and chivalric romance 3D MMORPG mobile game, <i>Love & Sword</i> (御劍情緣) was launched in the PRC. As of December 31, 2019, its global cumulative registered players has exceeded 20 million.

HISTORY AND REORGANIZATION

Year	Event
November 2016	Our first 3D turn-based mobile MMORPG, <i>Fantasy Zhuxian</i> (夢幻誅仙) in the PRC mobile game industry was self-developed and launched in the PRC. As of December 31, 2019, it has grossed over a cumulative billing of RMB3.3 billion.
February 2017	Our first self-developed 3D mobile MMORPG, <i>Power and Honor</i> (權力與榮耀) was launched and published by us through distribution channels in the PRC.
July 2017	Our self-developed 3D real-time naval battle shooting game, <i>Naval Creed</i> (戰艦聯盟) was launched and published by us through distribution channels.
August 2017	The Korean version of <i>Power and Honor</i> (權力與榮耀) was launched. Our self-developed flight-sim 3D mobile MMORPG, <i>The Castle in the Sky</i> (天空紀元) was launched and published in the PRC which grossed over RMB100.0 million within the first month.
August 2018	Our self-developed 3D mobile MMORPG <i>King of Kings/World of Kings</i> (萬王之王3D) was launched. The game featured a grand seamless map with a 360-degree panorama, and ranked first on the Top Free Games Chart of the iOS App Store in mainland China on the first day of its launch.
November 2018	<i>King of Kings/World of Kings</i> (萬王之王3D) was launched in Korea and grossed billing of over RMB33.0 million within the first month.
May 2019	The European and the Americas version of <i>World of Kings</i> (萬王之王3D) was launched and published by us through distribution channels. As a MMORPG mobile game developed by Chinese game companies, it has achieved excellent results in Europe and the Americas in terms of gross billing.
July 2019	The first real 3D next-generation mobile MMORPG operated on Unreal Engine 4, <i>Dragon Raja</i> (龍族幻想) in the PRC mobile game industry was launched in the PRC, which was self-developed, grossed billing of over RMB600.0 million and recorded over 10.0 million of new users and active users within the first month.
September 2019	The Hong Kong and Taiwan version of <i>Dragon Raja</i> (龍族幻想) was launched.
February 2020	The European and the Americas version of <i>Dragon Raja</i> (龍族幻想) was launched and published by us in regions such as the United States, Russia, France and Germany through distribution channels.
April 2020	The Japan version of <i>Dragon Raja</i> (龍族幻想) were launched.
May 2020	The Southeast Asia version of <i>Dragon Raja</i> (龍族幻想) were launched and published by us through distribution channels.

See “Business — Awards and Recognition” for recognition for the quality and market reception of our games during the Track Record Period.

HISTORY AND REORGANIZATION

OUR PRINCIPAL OPERATING ENTITIES

As of the Latest Practicable Date, we have five principal operating entities (being two Consolidated Affiliated Entities and three operating subsidiaries) which made material contributions to our financial results during the Track Record Period and/or are material to our operation. The corporate details of these principal operating entities are set forth below:

Name of Entity	Principal Business Activities	Date of Establishment/ Incorporation and Commencement of Business, Place of Establishment/ incorporation	Registered Capital/ Share Capital	License(s) Owned for Operating our Principal Business ⁽¹⁾	Relationship with our Company
Beijing Fantasy Mermaid	mobile game development	September 9, 2014 PRC	RMB10.0 million	Nil	an indirectly wholly-owned subsidiary of our Company
Famous Heart	overseas mobile game operation	October 23, 2014 Hong Kong	HK\$8.0 million	Nil	an indirectly wholly-owned subsidiary of our Company
Tianjin Loong	mobile game operation	April 15, 2015 PRC	RMB105.3 million	ICP License (expiring on January 14, 2021) Internet Cultural Operation License (expiring on November 5, 2021)	a Consolidated Affiliated Entity
Huai'an Loong	mobile game operation	August 19, 2016 PRC	RMB10.0 million	ICP License (expiring on July 20, 2022) Internet Cultural Operation License (expiring on May 10, 2020)	a Consolidated Affiliated Entity
Chengdu Fantasy Mermaid	mobile game development	December 10, 2019 PRC	RMB10.0 million	Nil	an indirectly wholly-owned subsidiary of our Company

Note:

- (1) We will renew our ICP Licenses in a timely manner according to applicable laws and regulations. As advised by our PRC Legal Adviser, subject to the submission of required documents prescribed under applicable PRC laws and regulations, and the review of PRC competent government authorities (namely, Tianjin Communication Administration (天津市通信管理局) for Tianjin Loong and Jiangsu Communication Administration (江蘇省通信管理局) for Huai'an Long), we will be able to renew our ICP Licenses upon their expiry. For details in relation to the renewal of our ICP Licenses and our Internet Cultural Operation Licenses, see “Regulatory Overview — Value-added Telecommunication Services” and “Regulatory Overview — Regulatory Authorities” respectively.

HISTORY AND REORGANIZATION

OUR CORPORATE HISTORY

Beijing Fantasy Mermaid

Beijing Fantasy Mermaid was established in the PRC as a limited liability company on September 9, 2014. The initial registered capital of Beijing Fantasy Mermaid was RMB0.1 million. At the time of the establishment, it was wholly owned by Mr. Li Qing. The principal business of Beijing Fantasy Mermaid is mobile game development. Beijing Fantasy Mermaid is wholly owned by Famous Game, see “— Reorganization.”

Famous Heart

Famous Heart was incorporated in Hong Kong as a limited company on October 23, 2014. The initial share capital of Famous Heart was HK\$1.0. On November 10, 2014, Ms. Wong Lok Yan, its founder and an Independent Third Party, transferred one ordinary share to Mr. Li Qing at nominal consideration. On the same day, Famous Heart issued and allotted 9,999 ordinary shares to Mr. Li Qing for cash at the consideration of HK\$9,999.

On April 8, 2016, Mr. Li Qing transferred 10,000 ordinary shares to Tianjin Loong at the consideration of HK\$10,000. On October 12, 2016, Famous Heart issued and allotted 1,990,000 ordinary shares to Tianjin Loong for cash at the consideration of HK\$1,990,000. On February 28, 2017, Famous Heart issued and allotted 6,000,000 ordinary shares to Tianjin Loong for cash at the consideration of HK\$6.0 million. Upon completion of such allotment, Famous Heart is wholly owned by Tianjin Loong. The principal business of Famous Heart is overseas mobile game operation. Famous Heart is wholly owned by Archosaur Entertainment, see “— Reorganization.”

Tianjin Loong

Establishment

Tianjin Loong was established in the PRC as a limited liability company on April 15, 2015 with an initial registered capital of RMB0.1 million. It was founded and owned as to 100% by Beijing Loong, which was in turn owned as to 81.96%, 6.94%, 5.55% and 5.55% by Mr. Li Qing, Mr. Zhang Yu, Mr. Xiang Nan, and Mr. Bai Wei, respectively. Since its establishment, a number of capital contributions and shareholding changes have taken place.

Mr. Li Qing and Mr. Bai Wei are our executive Directors and directors of Tianjin Zulong. Mr. Zhang Yu is the chief technology officer and the general manager of the engine center of our Group and a supervisor of Tianjin Zulong. See “Directors and Senior Management” for details of their background and qualifications.

Mr. Xiang Nan, aged 38, is a core game producer of our Group. He is primarily responsible for overseeing game production of our Group. Mr. Xiang has over 15 years of experience in game production. From July 2004 to December 2014, Mr. Xiang served as a game producer in the Perfect World Group. Mr. Xiang joined our Group in August 2015, and has been a director of Tianjin Loong since then.

HISTORY AND REORGANIZATION

Early development

On June 16, 2015, the registered capital of Tianjin Loong increased from RMB0.1 million to RMB7.0 million with the additional RMB6.9 million capital contributed by Beijing Loong, which was fully settled on September 9, 2015.

Investment by Onshore Pre-IPO Investors

On August 18, 2015, the registered capital of Tianjin Loong increased from RMB7.0 million to RMB10.0 million with the additional capital contributed by Perfect World. Upon completion of such investment by Perfect World on the same day, Tianjin Loong was owned as to 70.0% by Beijing Loong and 30.0% by Perfect World.

On January 11, 2017, Tianjin Loong, Beijing Loong, Linzhi Lichuang and Ningbo Longren⁽¹⁾ entered into a transaction pursuant to a capital increase agreement upon the completion of which Tianjin Loong was owned as to 54.81%, 23.49%, 13.00% and 8.70% by Beijing Loong, Perfect World, Linzhi Lichuang and Ningbo Longren, respectively. For further details of Perfect World and Linzhi Lichuang (both being Onshore Pre-IPO Investors) and the Pre-IPO Investments, see “— Pre-IPO Investments.”

Divestment by Perfect World

As part of the investment strategy of Perfect World to realise part of its capital gain from its investment, on August 24, 2018, Beijing Loong and Perfect World entered into an equity transfer agreement, pursuant to which Perfect World agreed to transfer 4.49% equity interest in Tianjin Loong, to Beijing Loong at a consideration of approximately RMB157.2 million. The consideration was determined based on arm's length negotiation having taken into account a valuation report prepared by an independent valuer, and was fully settled on September 7, 2018. Upon completion of such equity transfer, Tianjin Loong was owned as to 59.30%, 19.00%, 13.00% and 8.70% by Beijing Loong, Perfect World, Linzhi Lichuang and Ningbo Longren, respectively. Our Group did not receive any sale proceeds as a result of such share transfer.

In addition, in order to safeguard its investment interest in Tianjin Loong, Beijing Loong was granted in the Onshore Shareholders Agreement a put option to transfer 4.49% equity interest in Tianjin Loong for repurchase by Tianjin Loong in the event that a QIPO as defined in Note 25 of Appendix I to this prospectus fails to take place within the period of four years from the date of payment of the Transaction Price, at Redemption Price as defined in Note 26 of Appendix I to this prospectus. See “Financial Information-Other Non-current Liabilities.”

Subsequent development

On January 14, 2019, Tianjin Loong was converted into a joint stock limited company with a registered capital of RMB100.0 million.

Note:

- (1) Ningbo Longren is held as to 20%, 20%, 12%, 12%, 12%, 12%, and 12% by Mr. Zhao Tongtong, Mr. Xiao Zhou, Mr. Li Yi, Mr. Liu Wenwei, Mr. Wu Shenghe, Mr. Wang Le and Mr. Wang Yuanming, respectively, each of whom is a current employee of our Group.

HISTORY AND REORGANIZATION

Establishment of employee shareholding entity

On November 18, 2019, the then shareholders of Tianjin Loong approved, by way of written resolutions, the establishment of a limited partnership in the PRC, namely Ningbo Qiance, for the purpose of employee incentives at the onshore level, and an increase of its registered capital by RMB5.3 million. On December 2, 2019, the registered capital of Tianjin Loong increased from RMB100.0 million to RMB105.3 million, and the increase of such represents approximately 5.00% of the entire issued share capital of Tianjin Loong upon its completion, to Ningbo Qiance. Upon completion of the registration of capital contribution with the relevant local branch of the SAIC on December 2, 2019, Tianjin Loong was owned as to 56.34%, 18.05%, 12.35%, 8.27% and 5.00% by Beijing Loong, Perfect World, Linzhi Lichuang, Ningbo Longren and Ningbo Qiance, respectively. Such capital contribution by Ningbo Qiance was fully paid on March 18, 2020. Our PRC Legal Adviser has confirmed that all relevant approvals and permits in relation to such increase of the registered capital of Tianjin Loong have been obtained, and such arrangement has legally completed.

On November 28, 2019, Ningbo Qiance was established as a limited partnership enterprise under the laws of the PRC. As of the Latest Practicable Date, Ningbo Qiance is held by seven current employees of our Group. Details of the partners of Ningbo Qiance are set forth below:

Name	Roles in Ningbo Qiance	Positions in the Group	Roles and responsibilities
Zhao Tongtong . .	General partner	Game producer	Responsible for game development
Liu Bing	Limited partner	Head of graphic design team	Responsible for overseeing graphic designing and managing our graphic design team
Liu Wenwei	Limited partner	Head of programming team	Responsible for overseeing programming and technical matters in the development of our games
Wu Shenghe	Limited partner	Head of project management	Responsible for operation and management of the game operation
Xiao Zhou	Limited partner	Head of programming team	Responsible for overseeing programming and technical matters in the development of our games
Wang Le	Limited partner	Head of graphic design team	Responsible for overseeing graphic designing and managing our graphic design team
Wang Yuanming .	Limited partner	Head of programming team	Responsible for overseeing programming and technical matters in the development of our games

HISTORY AND REORGANIZATION

To reflect the interests in Tianjin Loong in interests in our Company, Smooth Ebony was incorporated by the same seven current employees of our Group and the RSU Scheme was adopted. For details, see “— Incorporation of offshore holding companies” and “— Introduction of RSU Scheme.”

Huai’an Loong

Huai’an Loong was established in the PRC as a limited liability company on August 19, 2016. The initial registered capital of Huai’an Loong was RMB10.0 million. Since its establishment, it has been wholly owned by Tianjin Loong. The principal business of Huai’an Loong is mobile game operation.

Famous Game

Famous Game was incorporated in Hong Kong as a limited company on August 5, 2019. The initial share capital of Famous Game was US\$10.0 million divided into 10,000,000 ordinary shares of US\$1.0 each. At the time of the establishment, Famous Game was wholly owned by Tianjin Loong. As of the Latest Practicable Date, Famous Game is an investment holding company. Upon completion of the Reorganization, Famous Game is wholly owned by Archosaur Entertainment, see “— Reorganization” for more details.

Chengdu Fantasy Mermaid

Chengdu Fantasy Mermaid was established in the PRC as a limited liability company on December 10, 2019. The initial registered capital of Chengdu Fantasy Mermaid was RMB10.0 million. Since its establishment, it has been wholly owned by Beijing Fantasy Mermaid. The principal business of Chengdu Fantasy Mermaid is mobile game development.

Hai’nan Loong

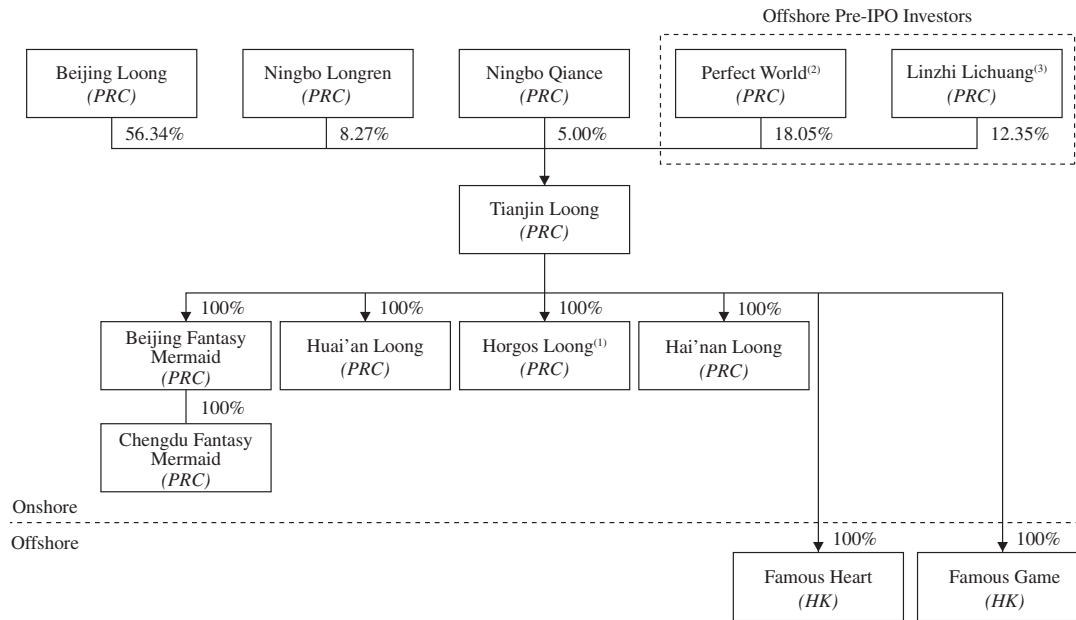
Hai’nan Loong was established in the PRC as a limited liability company on April 14, 2020. The initial registered capital of Hai’nan Loong was RMB10.0 million. Since its establishment, it has been wholly owned by Tianjin Loong. The principal business of Hai’nan Loong is mobile game operations.

HISTORY AND REORGANIZATION

REORGANIZATION

In order to optimize our corporate structure to further develop the business of our Group and to more readily access the international capital markets, we underwent a corporate reorganization in preparation for the Global Offering, details of which are set out below.

The shareholding and corporate structure of our Group immediately prior to the Reorganization are set out in the chart below:



Notes:

- (1) The process of de-registration of Horgos Loong was completed on April 1, 2020. For details, see “— De-registration of Horgos Loong.”
- (2) Perfect World is one of our Onshore Pre-IPO Investors. See “— Pre-IPO Investments.”
- (3) Linzhi Lichuang is one of our Onshore Pre-IPO Investors. See “— Pre-IPO Investments.”

HISTORY AND REORGANIZATION

Offshore Reorganization

Incorporation of offshore holding companies

In late 2019, the respective ultimate beneficial owners of the Registered Shareholders (other than Perfect World and Linzhi Lichuang) had incorporated a series of companies in the BVI. The details of all these offshore holding companies are set out below:

Company name	Ultimate shareholder(s)	Equity interest in such offshore holding company
LuckQ	Mr. Li Qing ⁽¹⁾	100%
ZY Technology	Mr. Zhang Yu	100%
XNZL Ltd	Mr. Xiang Nan	100%
Wade Data	Mr. Bai Wei ⁽¹⁾	100%
ZST Technology Limited	Mr. Zhao Tongtong	100%
Yuliana Limited	Mr. Xiao Zhou	100%
Easea Holdings Limited	Mr. Li Yi	100%
LWW Technology Limited	Mr. Liu Wenwei	100%
RTWU Limited	Mr. Wu Shenghe	100%
WL Technology Limited	Mr. Wang Le	100%
WYM Technology Limited	Mr. Wang Yuanming	100%
LB Technology Limited	Mr. Liu Bing	100%
Cresc Chorus ⁽²⁾	Mr. Li Qing ⁽¹⁾ , Mr. Zhang Yu, Mr. Xiang Nan and Mr. Bai Wei ⁽¹⁾	100%
Green Particle ⁽³⁾	Mr. Zhao Tongtong, Mr. Xiao Zhou, Mr. Li Yi, Mr. Liu Wenwei, Mr. Wu Shenghe, Mr. Wang Le and Mr. Wang Yuanming	100%
Smooth Ebony ⁽⁴⁾⁽⁵⁾	Mr. Zhao Tongtong, Mr. Liu Bing, Mr. Liu Wenwei, Mr. Wu Shenghe, Mr. Xiao Zhou, Mr. Wang Le and Mr. Wang Yuanming	100%

Notes:

- (1) The individual holds directorship in our Company.
- (2) Cresc Chorus is ultimately held as to 81.96% by Mr. Li Qing, 6.94% by Mr. Zhang Yu, 5.55% by Mr. Xiang Nan and 5.55% by Mr. Bai Wei through their respective offshore holding companies, each of whom is our Controlling Shareholder. Mr. Li Qing and Mr. Bai Wei are executive Directors of our Group, and Mr. Zhang Yu is the chief technology officer and the general manager of the engine center of our Group.
- (3) Green Particle is ultimately held as to 20.00% by Mr. Zhao Tongtong, 20.00% by Mr. Xiao Zhou, 12.00% by Mr. Li Yi, 12.00% by Mr. Liu Wenwei, 12.00% by Mr. Wu Shenghe, 12.00% by Mr. Wang Le and 12.00% by Mr. Wang Yuanming, each through their respective offshore holding companies, each of whom is a current employee of our Group. As (i) each of its shareholders is not a connected person of our Company; (ii) the Shares held by it were not acquired through the direct or indirect financing by any core connected person of our Company; and (iii) it is not accustomed to take instructions from any core connected person of our Company in relation to the acquisition, disposal, voting or other disposition of such Shares, it is considered as a member of “the public” for the purpose of Rule 8.24 of the Listing Rules.

HISTORY AND REORGANIZATION

- (4) Smooth Ebony is ultimately held as to 20.00% by Mr. Zhao Tongtong, 20.00% by Mr. Liu Bing, 15.00% by Mr. Liu Wenwei, 15.00% by Mr. Wu Shenghe, 12.00% by Mr. Xiao Zhou, 12.00% by Mr. Wang Le and 6.00% by Mr. Wang Yuanming, each through their respective offshore holding companies, each of whom is a current employee of our Group. As (i) each of its shareholders is not a connected person of our Company; (ii) the Shares held by it were not acquired through the direct or indirect financing by any core connected person of our Company; and (iii) it is not accustomed to take instructions from any core connected person of our Company in relation to the acquisition, disposal, voting or other disposition of such Shares, it is considered as a member of “the public” for the purpose of Rule 8.24 of the Listing Rules.
- (5) Smooth Ebony acts as the holding company to hold the Shares on trust under the RSU Scheme.

Incorporation of our Company and issue of Shares to Offshore Pre-IPO Investors

Our Company was incorporated as an exempted company with limited liabilities in the Cayman Islands on January 2, 2020 with an authorized share capital of US\$50,000 divided into 5,000,000,000 Shares with a par value of US\$0.00001 each. On the same day, following our Company’s issue of one Share to Harneys Fiduciary (Cayman) Limited, an Independent Third Party, which was subsequently transferred to Cresc Chorus, our Company was owned as to (i) 56,335,000 Shares by Cresc Chorus; (ii) 8,265,000 Shares by Green Particle; and (iii) 5,000,000 Shares by Smooth Ebony.

On March 4, 2020, our Company, our subsidiaries, our Consolidated Affiliated Entities and the offshore investment vehicles of the Registered Shareholders (namely Cresc Chorus, Green Particle, Smooth Ebony, Perfect World Interactive and Image Frame, (collectively the “**Offshore Shareholders**”)), among others, entered into the Offshore Share Subscription Agreement and the Offshore Shareholders Agreement. Pursuant to the Offshore Share Subscription Agreement, each of Perfect World Interactive and Image Frame agreed to subscribe for certain number of Preferred Shares, (i) to substantially reflect the rights, obligations and shareholdings in Tianjin Loong held by their affiliates (namely, Perfect World and Linzhi Lichuang, respectively, which are the Onshore Pre-IPO Investors) and their respective rights reflected in the Onshore Shareholders Agreement; and (ii) to increase their shareholding in our Company through the Pre-IPO Investments. See “— Pre-IPO Investments.”

Incorporation of Archosaur Entertainment

Archosaur Entertainment was incorporated in the BVI as a BVI business company with limited liability on January 7, 2020 with the initial authorized share capital of US\$50,000 divided into 50,000 Shares of US\$1.0 each. Upon incorporation, one share, representing the entire issued share capital of Archosaur Entertainment, was issued and allotted to our Company at par value. Upon the completion of such issue and allotment, Archosaur Entertainment became a direct wholly-owned subsidiary of our Company.

Transfer of Famous Heart and Famous Game to Archosaur Entertainment

Prior to the Reorganization, Famous Heart and Famous Game were wholly-owned by Tianjin Loong. For the purpose of Reorganization, on February 3, 2020, Tianjin Loong transferred all of its shares in Famous Game to Archosaur Entertainment at nominal consideration of US\$1.0, having taken into account (i) book value of the assets held by Famous Game, and (ii) its lack of business operation.

On March 4, 2020, Tianjin Loong transferred all of its shares in Famous Heart to Archosaur Entertainment at the consideration of approximately RMB121.4 million, having taken into account (i) book value of the net assets held by Famous Heart, and (ii) a valuation report prepared by an independent valuer.

HISTORY AND REORGANIZATION

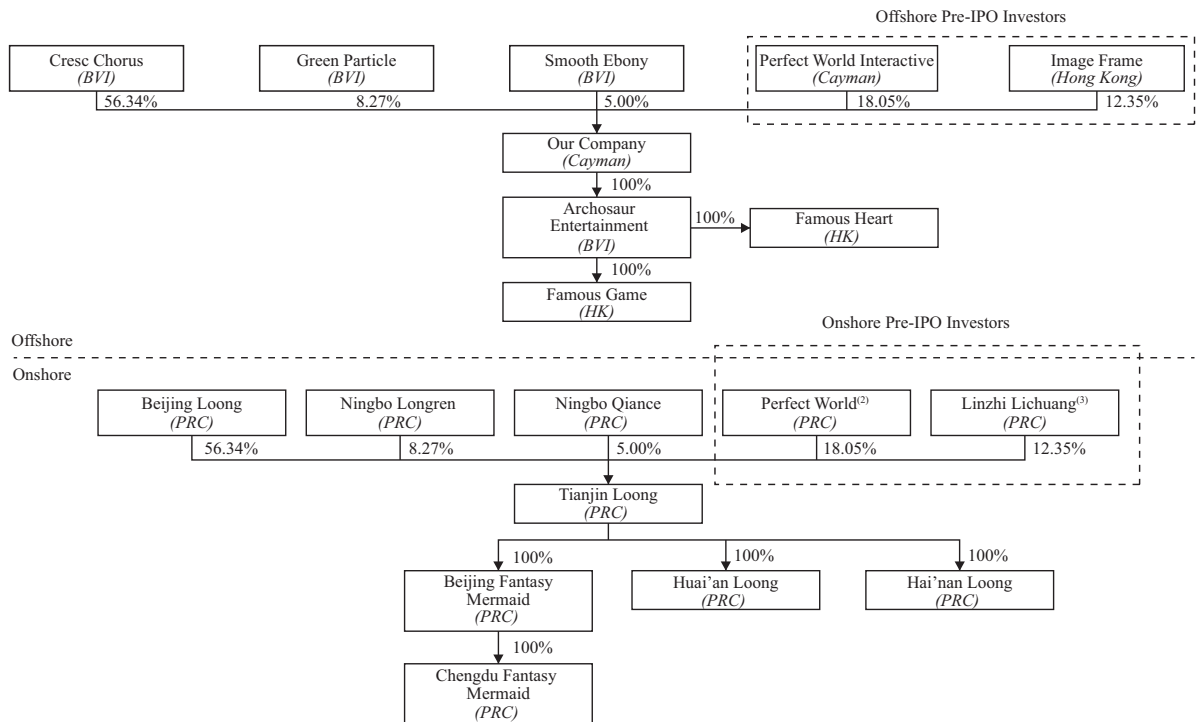
Introduction of RSU Scheme and grant of RSUs

For the purpose of converting the equity interest in Tianjin Loong held by Ningbo Qiance into interests in our Company, the following actions were taken:

- (a) on January 2, 2020, our Company issued 5,000,000 Shares credited as fully paid to Smooth Ebony at par value. Upon the completion of such share issuance, Smooth Ebony held 7.18% of the then issued share capital of our Company; and
- (b) on April 1, 2020, our Company adopted the RSU Scheme of the benefits of eligible employees. On the same date, an aggregate of 3,059,700 RSUs whose underlying Shares represent approximately 3.00% of our total number of issued Shares as of the Latest Practicable Date were granted to 145 management staff and employees of our Group under the RSU Scheme.
- (c) on June 24, 2020, an aggregate of 121,000 RSUs whose underlying Shares represent approximately 0.12% of our total number of issued Shares as of the Latest Practicable Date were granted to three employees of our Group under the RSU Scheme.

Such RSUs shall be vested on several dates which are ranging from 12 months to 36 months from the Listing Date. Our Company intends to grant the outstanding RSUs after Listing. See “Appendix IV — Statutory and General Information — D. RSU Scheme.”

The following chart sets out the shareholding and corporate structure of our Company immediately after the completion of the above steps of the offshore reorganization:



Notes:

- (1) The process of de-registration of Horgos Loong was completed on April 1, 2020. For details, see “— De-registration of Horgos Loong.”
- (2) Perfect World is one of our Onshore Pre-IPO Investors. See “— Pre-IPO Investments.”
- (3) Linzhi Lichuang is one of our Onshore Pre-IPO Investors. See “— Pre-IPO Investments.”

HISTORY AND REORGANIZATION

Onshore Reorganization

Acquisition of Beijing Fantasy Mermaid by Famous Game

On January 14, 2020, Tianjin Loong transferred 2.00% of the equity interest of Beijing Fantasy Mermaid to Mr. Liu Yongji, being an Independent Third Party, at the consideration of RMB0.2 million. On March 10, 2020, pursuant to the equity transfer agreement entered into between Famous Game as transferee and each of Tianjin Loong and Mr. Liu Yongji as transferor, Famous Game acquired 100% of the equity interest of Beijing Fantasy Mermaid at an aggregate consideration of RMB10.0 million, after which Beijing Fantasy Mermaid becomes a wholly-owned foreign enterprise in the PRC and an indirectly wholly-owned subsidiary of our Company. The respective consideration for the above equity transfer was determined based on an arm's length negotiation having taken into account (i) a valuation report prepared by an independent valuer, and (ii) the registered capital of Beijing Fantasy Mermaid.

De-registration of Horgos Loong

Horgos Loong was established in the PRC as a limited liability company on March 29, 2017 with a registered capital of RMB10.0 million. Immediately prior to the Reorganization, Horgos Loong was wholly owned by Tianjin Loong. As Horgos Loong had only limited operation since its establishment, it initiated procedures for de-registration on January 10, 2020 and its de-registration was completed on April 1, 2020. As advised by our PRC Legal Adviser, at the time of de-registration, Horgos Loong was solvent and had complied with all regulatory requirements, and there were no outstanding claims or legal liabilities against it.

Transfer of non-restricted business of Tianjin Loong and Huai'an Loong

From January 16, 2020, the Consolidated Affiliated Entities commenced the transfer of their non-restricted business. As of the Latest Practicable Date, the transfer of physical assets (such as computer equipment and facilities), intellectual properties, personnel and business contracts relating to the operation of non-restricted business to Beijing Fantasy Mermaid and Chengdu Fantasy Mermaid was completed.

Entering into Contractual Arrangements

In order for us to operate our current business in the PRC through Tianjin Loong and its subsidiary, Huai'an Loong, we entered into the Contractual Arrangements with Tianjin Loong and its Registered Shareholders on March 10, 2020. See "Contractual Arrangements."

PRE-IPO INVESTMENTS

Prior to the incorporation of our Company in January 2020, Tianjin Loong received two rounds of Pre-IPO Investments which are summarized below.

Onshore Pre-IPO Investments

Immediately before the Pre-IPO Investments, the entire equity interest of Tianjin Loong was owned by Beijing Loong.

HISTORY AND REORGANIZATION

On August 10, 2015, Perfect World entered into an investment agreement with the then shareholders of Tianjin Loong for an investment amount of approximately RMB143.0 million in exchange for the then 30.00% equity interest in Tianjin Loong.

On January 11, 2017, Linzhi Lichuang entered into a capital increase agreement with Tianjin Loong, Beijing Loong and Ningbo Longren for an investment amount of RMB260.0 million in exchange for the then 13.00% equity interest in Tianjin Loong.

On August 24, 2018, Perfect World transferred its 4.49% of equity interest in Tianjin Loong to Beijing Loong. See “— Our Corporate History — Tianjin Loong.”

Transition from onshore pre-IPO investments to offshore pre-IPO investments

In contemplation of the Listing and to reflect the onshore investment by Perfect World and Linzhi Lichuang at the level of our Company, each of Perfect World Interactive and Image Frame, among others, entered into the Offshore Share Subscription Agreement and the Offshore Shareholders Agreement on March 4, 2020, pursuant to which our Company has allotted and Perfect World Interactive and Image Frame have subscribed for 18,050,000 Series A Preferred Shares and 12,350,000 Series B Preferred Shares for nominal consideration of US\$1.0, respectively, representing 18.05% and 12.35% of the total number of the then issued shares of our Company at the time, respectively.

Onshore pre-IPO investments at the level of Tianjin Loong				Corresponding offshore pre-IPO investments at the level of our Company						
Name of Onshore Pre-IPO Investors	Date of initial agreement for onshore pre-IPO Investments	Settlement Amount of consideration	Date of the consideration	Name of corresponding Offshore Pre-IPO Investors	Date of Offshore Share Subscription Agreement	Number of Preferred Shares immediately after completion of the Pre-IPO Investments	Settlement Date for the Offshore Share Subscription Agreement	Number of Shares as of the Listing Date ⁽¹⁾	Approximate original price per Share ⁽³⁾	Discount to the Offer Price ⁽⁴⁾
		<i>RMB in million</i>							<i>HK\$</i>	
Perfect World	August 10, 2015	Approximately 115.7 ⁽²⁾	June 7, 2016 ⁽⁵⁾	Perfect World Interactive	March 4, 2020	18,050,000 Series A Preferred Shares	March 5, 2020	106,134,000	1.19	88.9%
Linzhi Lichuang	January 11, 2017	260.0	January 24, 2017	Image Frame	March 4, 2020	12,350,000 Series B Preferred Shares	March 5, 2020	72,618,000	3.91	63.4%

Notes:

- (1) Calculated after taking into account each Preferred Share shall be converted into one ordinary share of our Company and the number of Shares to be issued pursuant to the Capitalization Issue and the Global Offering (assuming the Over-allotment Option is not exercised).
- (2) The amount of consideration paid by Perfect World for its onshore pre-IPO Investment at the level of Tianjin Loong is calculated based on the then 30% equity interest owned by Perfect World by way of capital contribution in July 2016 and the divestment by Perfect World in August 2018. See “- Our corporate history — Tianjin Loong.”
- (3) Calculated based on division of the amount of consideration paid as set out above by the number of Shares issued as of the Listing Date.
- (4) The discount to the Offer Price is calculated based on the assumption that (1) the Offer Price is HK\$10.70 per Share, being the mid-point of the indicative Offer Price range of HK\$9.80 to HK\$11.60; and (2) each Preferred Share was converted to one ordinary share.
- (5) The settlement date was based on the last date of payment of consideration by Perfect World but without taking into account the divestment by Perfect World in August 2018. See “— Our corporate history — Tianjin Loong.”

HISTORY AND REORGANIZATION

Offshore Pre-IPO Investments

Our Company received two additional rounds of Pre-IPO Investments from Perfect World Interactive and Image Frame in March 2020.

On March 4, 2020, each of Perfect World Interactive and Image Frame entered into a share purchase agreement with, among others, Cresc Chorus, pursuant to which Cresc Chorus as vendor agreed to sell and each of Perfect World Interactive and Image Frame as purchaser agreed to purchase 4,500,000 ordinary shares of our Company for a consideration of RMB220.0 million each. Such Shares have been re-designated into Series C-1 Preferred Shares upon closing, representing 4.50% of the total number of the then issued shares of our Company at the time.

On the same day, Perfect World Interactive and Image Frame, among others, entered into the Offshore Share Subscription Agreement pursuant to which they each further subscribe for 1,020,408 Series C-2 Preferred Shares for U.S. Dollars equivalent of RMB50.0 million, each representing 1.0% of the total number of the then issued shares of our Company at the time.

Round	Investor	Date of agreement	Number of Preferred Shares immediately after completion of the Pre-IPO Investments	Number of Shares as of the Listing Date ⁽¹⁾	Amount of consideration	Settlement date of the consideration	Approximate original price per Share ⁽²⁾	Discount to the Offer Price ⁽³⁾
1 Series C-1 Preferred Shares	Perfect World Interactive Image Frame	March 4, 2020	4,500,000	26,460,000	220.0	March 4, 2020	9.09	15.1%
		March 4, 2020	4,500,000	26,460,000	220.0	March 5, 2020	9.09	15.1%
2 Series C-2 Preferred Shares	Perfect World Interactive Image Frame	March 4, 2020	1,020,408	5,999,999	50.0	March 4, 2020	9.11	14.9%
		March 4, 2020	1,020,408	5,999,999	50.0	March 5, 2020	9.11	14.9%

Notes:

- (1) Calculated after taking into account each Preferred Share shall be converted into one ordinary share of our Company and the number of Shares to be issued pursuant to the Capitalization Issue and the Global Offering (assuming the Over-allotment Option is not exercised).
- (2) Calculated based on division of the amount of consideration paid as set out above by the number of Shares issued as of the Listing Date.
- (3) The discount to the Offer Price is calculated based on the assumption that (1) the Offer Price is HK\$10.70 per Share, being the mid-point of the indicative Offer Price range of HK\$9.80 to HK\$11.60; and (2) each Preferred Share shall be converted to one ordinary share.

HISTORY AND REORGANIZATION

The table below sets out the shareholdings of our Pre-IPO Investors mentioned above:

	Number of Preferred Shares immediately after completion of the Pre-IPO Investments	Number of Shares as of the Listing Date ^(Note)	Approximate shareholding in our Company as of the Listing Date ^(Note)
Perfect World Interactive	23,570,408	138,593,999	17.60%
Image Frame	17,870,408	105,077,999	13.34%

Note: Calculated after taking into account each Preferred Share shall be converted into one ordinary share of our Company and the number of Shares to be issued pursuant to the Capitalization Issue and the Global Offering (assuming the Over-allotment Option is not exercised).

Principal terms of the Pre-IPO Investments and Pre-IPO Investors' rights

Basis of determination of the considerations The considerations were determined based on arm's length of negotiations between the parties with reference to (i) the prospects of our business, (ii) the valuation of Tianjin Loong and our Group as a whole, and (iii) the strategic benefits to be brought by the Pre-IPO Investors at or around the date of the investment.

Use of Pre-IPO Investment proceeds The funds raised from the Pre-IPO Investments, except for those from the acquisition of Series C-1 Preferred Shares, were used for our working capital and general corporate purposes, technology research and development, marketing and sales, general and administrative expenses.

No proceeds were received by our Company for the acquisition of Series C-1 Preferred Shares by the Offshore Pre-IPO Investors from Cresc Chorus.

As of the Latest Practicable Date, all the funds raised from the Pre-IPO Investments shall be so utilized in the aforementioned manner and approximately RMB99.6 million remained unutilized.

Strategic benefits We are of the view that our Company can benefit from the investments by the Pre-IPO Investors in our Company as their investments demonstrated their confidence in our Group's operations and served as an endorsement of our Company's performance, strengths and prospects. Our Company is also of the view that the Pre-IPO Investors have good presence in our industry which can provide us with professional insights and advice on our Group's development and can help us achieve business synergies through enhanced business cooperation.

HISTORY AND REORGANIZATION

Conversion rights	Upon the Listing, each Preferred Share shall be converted into Share based on the then applicable conversion ratio and conversion price (subject to adjustment). The adjustment to the conversion ratio is not linked to the Offer Price or the market capitalization of our Company upon Listing and is in line with the principles and requirements promulgated by the Hong Kong Stock Exchange.
Lock up	Each of Perfect World Interactive and Image Frame shall not dispose of Shares during the first six months from the date of Listing
Public float	Since each of Perfect World Interactive and Image Frame will hold more than 10% of our Shares upon the Listing, the Shares held by them will not be counted as public float

In addition to the terms described above, Perfect World and Linzhi Lichuang had been granted certain special rights, comprising information and inspection rights, right of first refusal, tag-along right, pre-emptive rights, board seat, redemption rights, anti-dilution rights and liquidation rights under the Onshore Shareholders Agreement, which was terminated on March 10, 2020. Under the Offshore Shareholders Agreement, Perfect World Interactive and Image Frame have been granted certain special rights, comprising redemption rights, information and inspection rights, liquidation rights, right to nominate director, pre-emptive right, right of first refusal and co-sale and veto rights and anti-dilution rights in the event of issuance of new securities below the issue price of the Preferred Shares or changes as a result of share split, share division, share combination, share dividend, reorganization, mergers, consolidations, reclassifications, exchanges, substitutions, recapitalization or similar events. All these special rights shall automatically terminate upon Listing when the Preferred Shares are converted into ordinary shares of our Company.

Information on the Pre-IPO Investors

Perfect World

Established under the laws of PRC, Perfect World is a subsidiary of Perfect World Co., Ltd. and is one of the Registered Shareholders holding 18.05% of the registered capital of Tianjin Loong as of the Latest Practicable Date. Perfect World Co., Ltd. is a company listed on the Shenzhen Stock Exchange (stock code: 002624). It engages in the provision of development, distribution and operation of online games, production, distribution and derivative business of TV series and movies, pan-entertainment business, artist management and related services. Based on the annual results announcement of Perfect World Co., Ltd. dated February 20, 2020, for the year ended December 31, 2019, the Perfect World Group recorded a total revenue of approximately RMB8,037.6 million, with a gross profit of approximately RMB1,352.5 million.

Perfect World Interactive

Perfect World Interactive is an exempted company incorporated under the laws of Cayman Islands with limited liability, a subsidiary of Perfect World Co., Ltd., and thus a fellow subsidiary of Perfect World.

HISTORY AND REORGANIZATION

Linzhi Lichuang

Established under the laws of PRC, Linzhi Lichuang is an investment holding company, and a designated nominee of Tencent in connection with the Pre-IPO Investments by Tencent and one of the Registered Shareholders holding 12.35% of the registered capital of Tianjin Loong as of the Latest Practicable Date. Tencent is a company listed on the Main Board of the Hong Kong Stock Exchange (stock code: 700), which engages in the provision of internet value-added services, online advertising, FinTech and business services to internet users. Based on the annual results announcement of Tencent dated March 18, 2020, for the year ended December 31, 2019, Tencent recorded a total revenue of approximately RMB105,767 million, with a gross profit of approximately RMB46,108 million.

Image Frame

Image Frame is a limited liability company incorporated under the laws of Hong Kong and a wholly owned subsidiary of Tencent.

Compliance with Interim Guidance and Guidance Letters

The Sole Sponsor has confirmed that the investments of the Pre-IPO Investors are in compliance with the Interim Guidance on Pre-IPO Investments issued by the Hong Kong Stock Exchange on October 13, 2010 and as updated in March 2017, the Guidance Letter HKEx-GL43-12 issued by the Hong Kong Stock Exchange in October 2012 and as updated in July 2013 and March 2017 and the Guidance Letter HKEx-GL44-12 issued by the Hong Kong Stock Exchange in October 2012 and as updated in March 2017.

CAPITALIZATION ISSUE

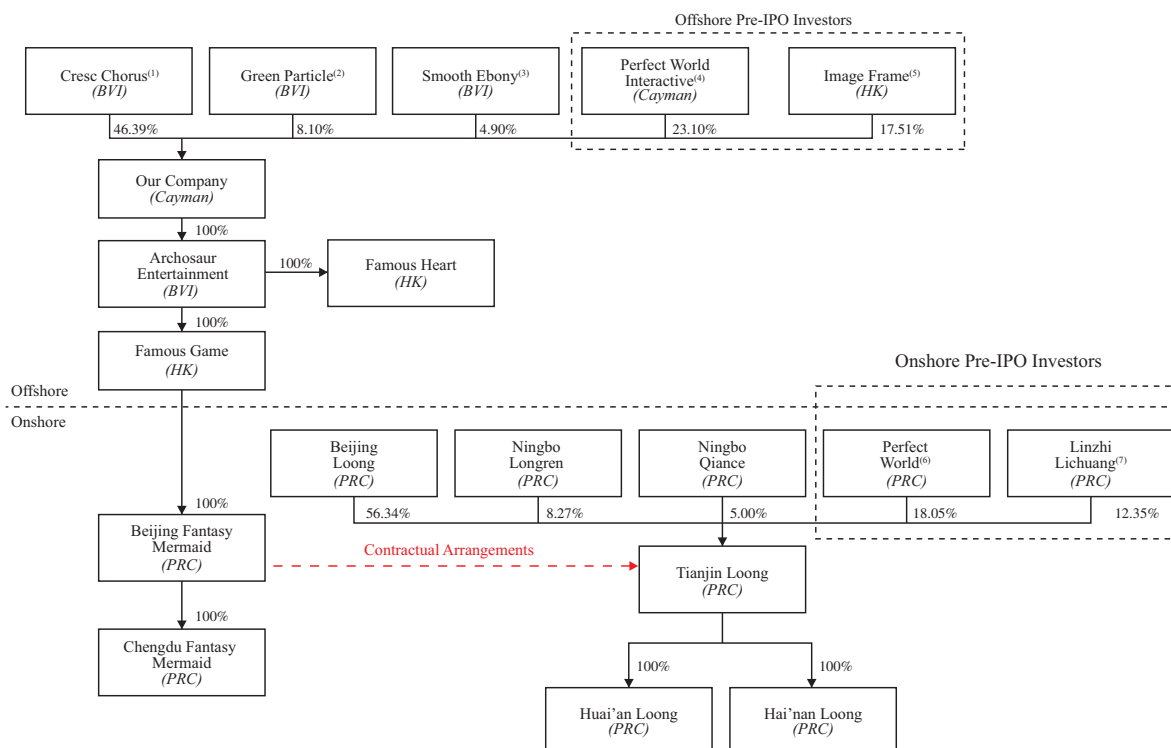
Subject to the share premium account of our Company having sufficient balance, or otherwise being credited as a result of the Offer Shares pursuant the Global Offering, our Directors shall be authorized to allot and issue a total of 497,959,184 Shares credited as fully paid at par value to the Shareholders on the register of members of our Company at the close of business on the date immediately preceding the date on which the Global Offering becomes unconditional (or as they may direct) in proportion to their respective shareholdings in our Company (as nearly as possible without fractions) by way of capitalization of the sum of US\$4,979.6 standing to the credit of the share premium account of our Company, and the Shares to be allotted and issued pursuant to this resolution shall rank *pari passu* in all respects with the then existing issued Shares.

HISTORY AND REORGANIZATION

CORPORATE STRUCTURES

Corporate Structure after the Reorganization and the Capitalization Issue and before the Global Offering

Our corporate and shareholding structure after the Reorganization and the Capitalization Issue and immediately prior to the completion of the Global Offering is as follows:



Notes:

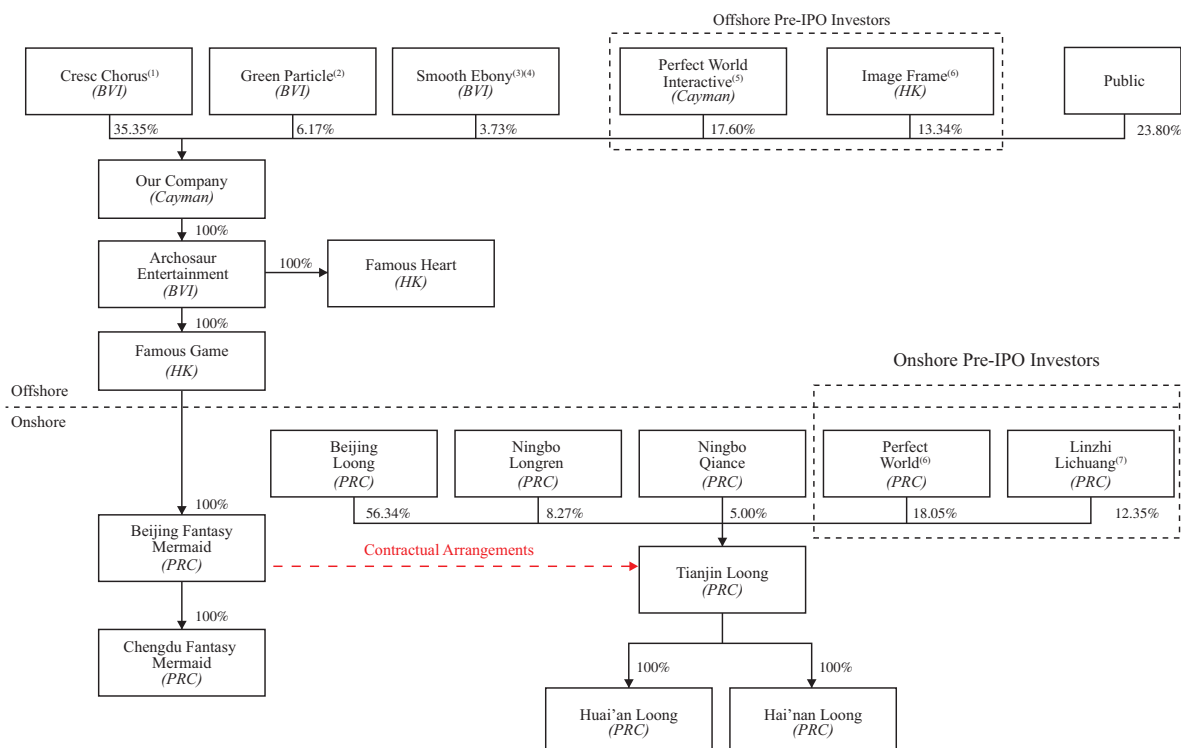
- (1) Cresc Chorus is ultimately held as to 81.96% by Mr. Li Qing, 6.94% by Mr. Zhang Yu, 5.55% by Mr. Xiang Nan and 5.55% by Mr. Bai Wei through their respective offshore holding companies, each of whom is our Controlling Shareholder. Mr. Li Qing and Mr. Bai Wei are the executive Directors of our Group, and Mr. Zhang Yu is the chief technology officer and the general manager of the engine center of our Group.
- (2) Green Particle is ultimately held as to 20.00% by Mr. Zhao Tongtong, 20.00% by Mr. Xiao Zhou, 12.00% by Mr. Li Yi, 12.00% by Mr. Liu Wenwei, 12.00% by Mr. Wu Shenghe, 12.00% by Mr. Wang Le and 12.00% by Mr. Wang Yuanming, each through their respective offshore holding companies, each of whom is a current employee of our Group. As (i) each of its shareholders is not a connected person of our Company; (ii) the Shares held by it were not acquired through the direct or indirect financing by any core connected person of our Company; and (iii) it is not accustomed to take instructions from any core connected person of our Company in relation to the acquisition, disposal, voting or other disposition of such Shares, it is considered as a member of “the public” for the purpose of Rule 8.24 of the Listing Rules.
- (3) Smooth Ebony is ultimately held as to 20.00% by Mr. Zhao Tongtong, 20.00% by Mr. Liu Bing, 15.00% by Mr. Liu Wenwei, 15.00% by Mr. Wu Shenghe, 12.00% by Mr. Xiao Zhou, 12.00% by Mr. Wang Le and 6.00% by Mr. Wang Yuanming, each through their respective offshore holding companies, each of whom is a current employee of our Group. Smooth Ebony acts as the holding company to hold the Shares on trust under the RSU Scheme. See “Appendix IV — Statutory and General Information — D. RSU Scheme.” As (i) each of its shareholders is not a connected person of our Company; (ii) the Shares held by it were not acquired through the direct or indirect financing by any core connected person of our Company; and (iii) it is not accustomed to take instructions from any core connected person of our Company in relation to the acquisition, disposal, voting or other disposition of such Shares, it is considered as a member of “the public” for the purpose of Rule 8.24 of the Listing Rules.

HISTORY AND REORGANIZATION

- (4) Perfect World Interactive is one of our Offshore Pre-IPO Investors. See “— Pre-IPO Investments.”
- (5) Image Frame is one of our Offshore Pre-IPO Investors. See “— Pre-IPO Investments.”
- (6) Perfect World is one of our Onshore Pre-IPO Investors. See “— Pre-IPO Investments.”
- (7) Linzhi Lichuang is one of our Onshore Pre-IPO Investors. See “— Pre-IPO Investments.”

Corporate Structure Immediately after Global Offering

Our corporate and shareholding structure immediately after the completion of the Global Offering will be as follows (assuming the Over-allotment Option is not exercised):



For footnotes (1) to (7), see above for details.

PRC LEGAL COMPLIANCE

M&A Rules

Pursuant to the M&A Rules, 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. According to Article 11 of the M&A Rules, where a domestic enterprise, or a domestic natural person, through an overseas company established or controlled by it/him/her, acquires a domestic enterprise which is related to or connected with it/him/her, approval from the MOFCOM is required.

HISTORY AND REORGANIZATION

Given that (i) Mr. Liu Yongji, a non-domestic person, is not connected with our Group when he acquired 2.00% equity interests of Beijing Fantasy Mermaid and such acquisition was completed in compliance with applicable PRC laws and regulations; (ii) Beijing Fantasy Mermaid was a sino-foreign joint venture when its 100% equity interests was acquired by Famous Games; and (iii) no provisions in the M&A Rules clearly classify contractual arrangements as a type of transaction subject to the M&A Rules, our PRC Legal Adviser is of the opinion that the onshore reorganization of the Reorganization and the Global Offering do not require approvals from the CSRC and the MOFCOM under the M&A Rules. However, as advised by our PRC Legal Adviser, there is uncertainty as to how the M&A Rules will be interpreted or implemented.

SAFE Registration

Pursuant to the Circular 37 promulgated by the SAFE and came into force on 4 July 2014, a PRC citizen residing in the PRC or an overseas individual who does not hold a Chinese identity document but has a habitual residence in China due to economic interests (a “**PRC Resident**”) must register with the local branch of SAFE before he contributes legal assets or equity interests in China or overseas in an oversea special purpose vehicle, which is directly incorporated or indirectly controlled by the PRC Resident for the purpose of overseas investment or financing.

As confirmed by our PRC Legal Adviser, our individual beneficial owners and PRC residents, namely, Mr. Li Qing, Mr. Zhang Yu, Mr. Xiang Nan, Mr. Bai Wei, Mr. Li Yi, Mr. Zhao Tongtong, Mr. Xiao Zhou, Mr. Liu Wenwei, Mr. Wu Shenghe, Mr. Wang Le and Mr. Liu Bing, completed the foreign exchange registrations on December 31, 2019, and Mr. Wang Yuanming completed his foreign exchange registration on January 6, 2020.

OVERVIEW

Our mission is to be a top-class gaming company in the world, serving global game players by continuously creating industry-leading games across a diverse array of genres.

We are a leading mobile game developer in China with proven capabilities in developing high-quality mobile games with excellent market reception. We mainly focus on mobile MMORPG development and have established a solid track record. Having gained a thorough understanding of game player demand for midcore to hardcore games with quality content, we aspire to continually roll out blockbuster titles with relentless passion and unwavering dedication. According to Frost & Sullivan, we achieved the following:

- We ranked fifth among all Chinese mobile game developers as measured by total gross billings from self-developed games in mainland China in 2019, with a market share of 1.6%.
- We ranked third among all Chinese mobile game developers as measured by total gross billings from self-developed MMORPGs in mainland China in 2019, with a market share of 5.6%.
- We ranked third among all Chinese mobile game developers as measured by total gross billings from self-developed MMORPGs on iOS App Store and Google Play in markets outside of mainland China from 2017 to 2019, with a market share of 8.1%.
- Four of our games ranked among the top 20 mobile MMORPGs as measured by gross billings in mainland China from 2017 to 2019. Among the four games, *Dragon Raja* (龍族幻想) ranked first among all mobile MMORPGs in terms of average MAUs in mainland China in 2019.

We are a pioneer in China's mobile game industry focusing on developing high-quality mobile MMORPGs. We have continually led the evolution in industry technology and achieved a number of "firsts" in China's mobile game industry: we launched one of the first real 3D mobile MMORPG grand strategy wargames, *Loong Craft* (六龍爭霸/六龍御天), and China's first next-generation real 3D mobile MMORPG powered by Unreal Engine 4, *Dragon Raja* (龍族幻想). We also launched one of the pioneering real 3D turn-based mobile MMORPGs, *Fantasy Zhuxian* (夢幻誅仙). Our games have met with considerable market acceptance. *Dragon Raja* (龍族幻想) generated gross billings of over RMB600.0 million in mainland China in the first month of launch in 2019, and *Fantasy Zhuxian* (夢幻誅仙), which was launched in 2016, generated gross billings of over RMB3.3 billion as of December 31, 2019.

Our demonstrated development capabilities are among the key factors of our success. With our profound game industry experience spanning the eras of single-player games, client games, web games and mobile games, we have built a strong and cohesive in-house development team and our game development talents accounted for over 85% of our total employees as of the Latest Practicable Date. We have seized advantages in each wave of technological innovation in the industry. For instance, we launched *Loong Craft* (六龍爭霸/六龍御天), which is one of the first real 3D mobile MMORPGs and is powered by Unity 3D, in 2015. Our cutting-edge engine technology allows us to continually launch AAA titles with great performance and stunning visual effects, ensuring the continued engagement of games players and fostering paying user conversion. We are among the first developers to successfully introduce Unreal Engine 4 into mobile game development in China and have conducted secondary development to support

the creation of quality titles. As an outstanding mobile game developer excelling at using Unreal Engine 4, we were invited by Epic Games to present *Dragon Raja* (龍族幻想) at the Game Developers Conference in 2019 and are applying Unreal Engine 4 to more games of different genres.

We are also a frontrunner in publishing our in-house developed games in markets outside of mainland China. We publish our games directly through distribution channels and in collaboration with third-party publishers. Leveraging our leading position in the domestic market, we have scaled up internationally and achieved significant results in global markets. We ranked third among all Chinese mobile game developers as measured by total gross billings from self-developed MMORPGs on iOS App Store and Google Play in markets outside of mainland China from 2017 to 2019, according to Frost & Sullivan. During the Track Record Period and up to the Latest Practicable Date, we had 14 mobile games with over 60 regional versions in 14 languages available in more than 170 regional markets, such as Hong Kong, Macau, Taiwan, Southeast Asia, South Korea, Japan, Europe and the Americas. *Dragon Raja* (龍族幻想), on the first day we published a new regional version of the game in the Americas and Europe in 2020, ranked first among mobile MMORPGs and second among mobile RPGs based on iOS App Store downloads in the United States and sat among the top ten mobile games based on iOS App Store downloads in eight regional markets in Europe. It notched a top 40 entry on the Top Grossing Chart of the iOS App Store in the United States within three months after launch in the Americas. *Dragon Raja* (龍族幻想) is also the first Chinese mobile MMORPG to top the Top Free Games Charts of both iOS App Store and Google Play in Japan since Chinese game companies began to establish their presence in the Japanese market in 2014. *King of Kings/World of Kings* (萬王之王3D) generated gross billings of over RMB500.0 million in markets outside of mainland China as of December 31, 2019 and received recognition and multiple recommendations from iOS App Store and Google Play. Following its launch in October 2015, *Loong Craft* (六龍爭霸/六龍御天) ranked top two for four consecutive months and top five for six consecutive months on the Top Grossing Games Chart of the iOS App Store in Taiwan and generated gross billings of over RMB100.0 million in aggregate from all markets outside of mainland China in the first month of launch. *The Castle in the Sky* (天空紀元) was among the top ten on the Global Top Grossing Games Chart ranked by App Annie in the first month of launch. We have cultivated a massive and growing global player community. The average MAUs of all our mobile games were approximately 0.8 million in markets outside of mainland China in the fourth quarter of 2019. Our revenue from markets outside of mainland China was RMB233.0 million, RMB191.2 million and RMB344.1 million for 2017, 2018 and 2019, respectively, accounting for 17.8%, 22.0% and 32.2%, respectively, of our total revenue for the same periods.

We have forged comprehensive and lasting relationships with leading publishers and distribution channels globally. In mainland China, we have maintained long-standing strategic alliances with China's leading publishers, including Tencent and Zlongame. We typically entered into exclusive game licensing agreements with them since the early stage of the game development process in order to optimize marketing effectiveness. As of December 31, 2019, we had collaborated with Tencent to publish four AAA titles, namely *Loong Craft* (六龍爭霸/六龍御天), *Fantasy Zhuxian* (夢幻誅仙), *King of Kings/World of Kings* (萬王之王3D) and *Dragon Raja* (龍族幻想), all of which had achieved widespread acceptance among game players. In markets outside of mainland China, we either directly publish our games through distribution channels or engage third-party publishers to publish our games. Overseas publishers seek early partnerships with us to publish our games in their respective markets, typically before the games are officially launched in mainland China. Our sound cooperative relationships with world-leading distribution channels, such as iOS App Store and Google Play, and third-party publishers facilitate the effective distribution of our games in global markets.

BUSINESS

We have a diverse and strong pipeline. As of the Latest Practicable Date, we had eight mobile games in the pipeline, covering the genres of MMORPG, SLG and others. We have been focusing on creating our original IP and adapting quality IP licensed from third-party IP holders into mobile games. As of the Latest Practicable Date, we tentatively had IP plans for six of our games, including four original IP games and two based on licensed IP. We had entered into exclusive game licensing agreements with Tencent on three of our original IP games in the pipeline as of the Latest Practicable Date. Furthermore, our game development and IP operational capabilities have made us the preferred choice of mobile game developers among world-renowned IP holders, from whom we are able to source IP with world-class quality and international recognition. As of the Latest Practicable Date, we had been cooperating with a top-tier global movie production house with an established track record in producing fantasy serials to adapt sequels to its phenomenal epic movie with over USD1.5 billion gross box office earnings into a mobile game.

We recorded steady financial performance during the Track Record Period. Our revenue was RMB1,309.2 million, RMB870.1 million and RMB1,067.2 million for 2017, 2018 and 2019, respectively. We had net losses of RMB159.4 million and RMB75.4 million in 2017 and 2018, respectively, and a net profit of RMB120.4 million in 2019. We had adjusted net profit of RMB423.2 million, RMB310.9 million and RMB354.5 million in 2017, 2018 and 2019, respectively.

OUR STRENGTHS

China's leading mobile game developer with proven capabilities in developing high-quality mobile games with excellent market reception

We are a pioneer in China's mobile game industry. We have accumulated extensive experience for over two decades, encompassing the eras of single-player games, client games, web games and mobile games. Our industry experience, market insights and technological strengths empower us to continually lead evolution in industry technology and roll out blockbuster titles. Recognizing our development capabilities and game quality, Tencent has collaborated with us to publish four AAA titles beginning in 2015. According to Frost & Sullivan, we ranked fifth among all Chinese mobile game developers as measured by total gross billings from self-developed games in mainland China in 2019 and third among all Chinese mobile game developers as measured by total gross billings from self-developed MMORPGs in mainland China in the same year. We are also a frontrunner in publishing our in-house developed games in markets outside of mainland China. We publish our games directly through distribution channels and in collaboration with third-party publishers. We sustainably expand our player base across the world by offering a wide selection of regional versions of our games in over 170 regional markets such as Hong Kong, Macau, Taiwan, Southeast Asia, South Korea, Japan, Europe and the Americas. According to Frost & Sullivan, we ranked third among all Chinese mobile game developers as measured by gross billings from self-developed MMORPGs on iOS App Store and Google Play in markets outside of mainland China from 2017 to 2019.

We adhere to a distinctive strategic positioning of creating high-quality games. During the Track Record Period and up to the Latest Practicable Date, we launched and/or operated 14 mobile games, five of which generated gross billings of over RMB100.0 million in their first month of launch, with the highest notching a record of over RMB600.0 million. Focusing on mobile MMORPG development, we have achieved a number of "firsts" in China's mobile game industry: we launched one of the first real 3D mobile MMORPG grand strategy wargames, *Loong Craft* (六龍爭霸/六龍御天), and China's first next-generation real 3D mobile MMORPG powered by Unreal Engine 4, *Dragon Raja* (龍族幻想). We also launched one of the pioneering real 3D turn-based mobile MMORPGs, *Fantasy Zhuxian* (夢幻誅仙). We have gained considerable market acceptance domestically and globally. For example, *Dragon Raja* (龍族

幻想) was named the Best Battle Game of 2019 by Google Play Hong Kong store; *King of Kings/World of Kings* (萬王之王3D) won the Best Original Mobile Game of 2018 Golden Plume Award; and *The Castle in the Sky* (天空紀元) received the Best Mobile Game of 2017 China Game Developers Award. According to Frost & Sullivan, four of our games ranked among the top 20 mobile MMORPGs as measured by gross billings in mainland China from 2017 to 2019.

Leveraging our strong development capabilities, our team has been able to quickly iterate work in progress throughout the game development process and to constantly upgrade our games based on their market performance and feedback. We strive to achieve a high success rate for our new games by delivering excellent games that closely track market demand. As of the Latest Practicable Date, we had eight mobile games in the pipeline, covering the genres of MMORPG, SLG and others.

Demonstrated game development capabilities supported by cohesive talent team and leading technology

Our demonstrated development capabilities are among the key factors of our success. In addition to our well-structured research and development system, we have built a strong and cohesive in-house development team consisting of industry-leading game development talents across age groups, 205 of whom each has over ten years' experience in game development. We have seized advantages in each wave of technological innovation in the industry. For instance, we developed and launched *Loong Craft* (六龍爭霸/六龍御天), which is one of the first real 3D mobile MMORPGs and is powered by Unity 3D, in 2015; and we are among the first developers to successfully introduce Unreal Engine 4 into mobile game development in China. As an outstanding mobile game developer excelling at using Unreal Engine 4, we were invited by Epic Games to present *Dragon Raja* (龍族幻想) at the Game Developers Conference in 2019 and are applying Unreal Engine 4 to more games of different genres. We have established our proprietary cloud-based server architecture for games we published through distribution channels. Seamlessly compatible with advanced game engines, such as Unity and Unreal, it enables high-level customization and secondary development to support the creation of AAA titles across a wide range of genres. Our core technology indicators, including parallel processing capability, response time and system stability, are top-rated within the industry. Our graphic design team has strong capabilities in both original design and technological know-how, continuously rolling out games overflowing with great notions, aesthetically pleasing images, cinematic visual effects and dramatic plots. For example, in *Dragon Raja* (龍族幻想), a game powered by Unreal Engine 4, we utilized GPU particle effects coupled with global illumination, physically based rendering, cinematic techniques and a facial and body motion capture system to create realistic animation and simulated environments, presenting the eponymous spectacular world of *Dragon Raja* (龍族). *Dragon Raja* (龍族幻想) was named the Unreal Open Day Most Anticipated Game of 2019.

Superior gaming experiences attracting numerous engaged game players with high paying potential

We are committed to fine craftsmanship in developing AAA titles and delivering superior gameplay experiences to game players across the world. We have developed high-quality games, mainly mobile MMORPGs and optimized them with operating metrics derived from our full-featured proprietary data analytics system. Utilizing our knowledge of and insights into the game industry, we have developed games featuring Chinese mythical theme, western fantasy and ACG to cater to a broad range of game player preferences. In addition, we have brought a variety of gameplay, such as homestead mission and avatar customization, into our games and introduced entertaining elements into updated versions,

creating new attractions in the games and increasing game traffic. For example, we crafted a grand seamless map with a 360-degree panorama in *King of Kings/World of Kings* (萬王之王3D), providing game players with a multisensory gaming experience. The game ranked first on the Top Free Games Chart of the iOS App Store in mainland China on its launch day, achieving approximately 3.5 million MAUs in the first month of launch. *Fantasy Zhuxian* (夢幻誅仙), a mobile MMORPG launched in November 2016, offered game players a rich set of gameplay and graphical features, as well as social network components to encourage inter-player collaboration and community-building. It ranked among the top 15 on the Top Grossing Games Chart of the iOS App Store in mainland China for four consecutive months following launch and amassed approximately 17.8 million cumulative registered players as of December 31, 2019.

We have cultivated a highly engaged player community and a significant paying user base. The cumulative registered players of our mobile games increased from 95.6 million as of December 31, 2018 to 121.2 million as of December 31, 2019. The average MAUs and average MPUs of our mobile games for 2019 were 3.4 million and 0.5 million, respectively, outpacing the figures of 3.1 million and 0.4 million for 2018, respectively. The ARPU of our mobile games increased from RMB24 in 2018 to RMB26 in 2019.

Diversified and solid long-term strategic partnerships and international business reach

We have fostered sustainable strategic alliances with China's leading publishers, including Tencent and Zlongame. Building upon our successful track record, domestic and overseas publishers seek to partner with us early in the game development process. Tencent entered into exclusive game licensing agreements with us at the project assessment stage during the development of *Loong Craft* (六龍爭霸/六龍御天), *Fantasy Zhuxian* (夢幻誅仙), *King of Kings/World of Kings* (萬王之王3D) and *Dragon Raja* (龍族幻想). With our established cooperative relationships with world-leading distribution channels, such as iOS App Store and Google Play, and third-party publishers in markets outside of mainland China, such as Efun and G-MEI (a game publisher indirectly owned by 37 Interactive Entertainment), we are able to facilitate the effective distribution of our games and to accelerate the publishing and localization process in global markets. As such, we are able to capture growth opportunities arising along the industry value chain through our strategic collaborations with various partners.

In addition to our leading position in the domestic market, we have scaled up internationally through geographical expansion and global player base growth. We are able to build our international brand by following a differentiated strategy to customize our publishing and operation in each market outside of mainland China. *King of Kings/World of Kings* (萬王之王3D) has been launched in over 170 regional markets, including Hong Kong, Taiwan, Southeast Asia, South Korea, Europe and the Americas. It generated gross billings of over RMB500.0 million in markets outside of mainland China as of December 31, 2019 and received recognition and multiple recommendations by iOS App Store and Google Play. Following its launch in October 2015, *Loong Craft* (六龍爭霸/六龍御天) ranked top two for four consecutive months and top five for six consecutive months on the Top Grossing Games Chart of the iOS App Store in Taiwan. It generated gross billings of over RMB100.0 million in aggregate from all markets outside of mainland China in the first month of launch. *Dragon Raja* (龍族幻想), on the first day we published a new regional version of the game in the Americas and Europe in 2020, ranked first among mobile MMORPGs and second among mobile RPGs based on iOS App Store downloads in the United States and sat among the top ten mobile games based on iOS App Store downloads in eight regional markets in Europe. It notched a top 40 entry on the Top Grossing Chart of the iOS App Store in the United States within three months after launch in the Americas. *Dragon Raja* (龍族幻想) is also the first Chinese mobile MMORPG to top the Top Free Games Charts of both iOS App Store and

BUSINESS

Google Play in Japan since Chinese game companies began to establish their presence in the Japanese market in 2014. *The Castle in the Sky* (天空紀元) ranked among the top ten on the Global Top Grossing Games Chart ranked by App Annie in the first month of launch. Our revenue from markets outside of mainland China was RMB233.0 million, RMB191.2 million and RMB344.1 million for 2017, 2018 and 2019, respectively, accounting for 17.8%, 22.0% and 32.2%, respectively, of our total revenue for the same periods.

Strong IP creation and operational capabilities

We have strong IP creation capabilities. A significant portion of our intellectual property is internally created, which facilitates the building of our own franchises and favorably positions us financially and competitively. Development with our original IP is cost-effective without incurring IP licensing fees and promotes our distinctive style to increase player engagement and loyalty. Among our existing games as of the Latest Practicable Date, six games were original IP games, all of which were highly acclaimed in the industry and the marketplace. For example, *Loong Craft* (六龍爭霸/六龍御天), one of our original IP games, received widespread recognition upon launch and amassed over 17.2 million cumulative registered players globally as of December 31, 2019. The oriental fantasy MMORPG, *Love & Sword* (御劍情緣), has built a strong and dedicated fanbase, with MAUs of over 1.0 million for 14 consecutive months following launch in July 2016.

We may also source IP from the marketplace to enrich game content, scenes, storylines and characters' attributes at the late stage of the game development process when the game structure and gameplay are almost established. Our solid operational capabilities in operating and managing licensed IP contribute to a virtuous cycle, as we successfully obtain a large amount of user traffic from the IP's fanbase and synergistically help the IP further maintain and enlarge its fanbase through our games. Our partners include some of the leading IP licensors, such as Perfect World, Chinese Entertainment and iQIYI. As of the Latest Practicable Date, we primarily managed 19 items of IP across various formats, ranging from licensed IP, including game IP, such as *King of Kings* (萬王之王) and *Aura Kingdom* (幻想神域), literature IP, such as *Dragon Raja* (龍族), movie and TV series IP, such as *Legend of Nine Tails Fox* (青丘狐傳說), to our original IP, such as *Loong Craft* (六龍爭霸/六龍御天) and *Love & Sword* (御劍情緣). Furthermore, our strong game development and IP operational capabilities have made us the preferred choice of mobile game developers amongst world-renowned IP holders, from whom we are able to source IP with world-class quality and international recognition. As of the Latest Practicable Date, we had been cooperating with a top-tier global movie production house with an established track record in producing fantasy serials to adapt sequels to its phenomenal epic movie with over USD1.5 billion gross box office earnings into a mobile game.

Dedicated, professional and experienced management and execution team

All members of our management and execution team graduated from Tsinghua University and other top universities in China. Our chairman and chief executive officer, Mr. Li Qing, has approximately 23 years' experience in game development since Archosaur Studio (祖龍工作室)'s setup and possesses a profound understanding of the game industry. He is one of the first-generation Top Ten Golden Medal Game Producers (十大金牌制作人), making him one of the most prolific game producers in China. Formerly the chief development officer of Perfect World, he led his team to develop a series of legendary titles, including *Perfect World* (完美世界), *Legend of Martial Arts* (武林外傳) and *Zhuxian* (誅仙). Mr. Xiang Nan and Mr. Zhao Tongtong, two core game producers in our company, each of whom has approximately 15 years' game development experience, are acknowledged as top game

producers with superior development capabilities in the industry. They participated in the production of classic client games, such as *Perfect World* (完美世界), *The Smiling, Proud Wanderer* (笑傲江湖) and *Saint Seiya* (聖鬥士星矢) and top-grossing mobile games, such as *Loong Craft* (六龍爭霸/六龍御天), *Fantasy Zhuxian* (夢幻誅仙), *King of Kings/World of Kings* (萬王之王3D) and *Dragon Raja* (龍族幻想).

Having worked together for more than 15 years, our core management and execution team has demonstrated great stability and cohesion, fostering a collaborative synergy to continuously craft AAA titles. Our core management and execution team not only possesses creative thinking and keen insights into the industry, but also has strong execution capabilities and the incentive to accomplish tremendous achievements. All members of our core management team engage in hands-on work and devote themselves to the game development process, driving efficiency from decision-making to execution.

OUR STRATEGIES

Continue to strengthen our development and operational capabilities

We will continue to strengthen our collaborations with the world's leading game engine developers to customize advanced game engines. To reinforce our advantages in utilizing cutting-edge game development technology and to fortify our leading position in China's mobile game industry, we intend to further enhance our graphic design capabilities and expand our talent pool by recruiting professionals specialized in the next-generation game technology.

We will further advance our operational capabilities, particularly in overseas markets, and improve our content localization capabilities to address game player demand and preferences across the world. We plan to further build up our overseas publishing and operation team and recruit over 20 personnel with at least three years' experience in mobile game publishing and operation. Our overseas publishing and operation team is primarily responsible for: (i) short-term and long-term planning to create initiatives and development plans based on market feedback in each region; (ii) engaging in localization activities specifically tailored to game players in the designated markets, taking into consideration game player characteristics, demand and preferences; and (iii) strategizing and implementing online and offline campaigns in various markets. See “— Our Global Business — Our Business in Markets Outside of Mainland China.” The size of our recruitment depends on factors including the numbers of prospective game projects, the commercial needs of each project and the level of consolidation of human resources among the projects. We will evaluate such factors as the projects progress and tailor our recruitment on an ongoing basis.

Maintain leadership in the industry and continue to enrich game offerings

Building upon our successful track record, we will continue to create high-quality mobile MMORPGs by integrating more gameplay and increasing game player engagement in order to maintain our leading position in the industry. We plan to launch new mobile MMORPGs, including *The New World* (夢想新大陸) in 2020 and *Noah's Heart* (諾亞之心) in 2021.

We aspire to further innovate and diversify gameplay and graphic design and to offer a robust and strategically selective game portfolio to a growing and engaged player community. We are committed to launching mobile games of various genres, including SLG and others, in the future. For instance, we plan to launch *Under the Firmament* (鴻圖之下), an SLG based on the story of the Three Kingdoms, in 2020.

We are at the cutting edge of the latest technology, innovative concepts and industry trends. We actively explore new gaming platforms and formats, such as visual reality and cloud gaming, and will continue to roll out blockbuster titles.

Expand in overseas markets and along the industry value chain, scaling up our global businesses

Leveraging our status in the Asia Pacific market and excellent product performance, we will strengthen our market position in Hong Kong, Macau, Taiwan, Southeast Asia, South Korea and Japan, and further expand our business in areas such as Europe and North America. We will also substantiate our presence in emerging geographic markets, including India and Latin America, to execute our growth initiatives globally.

We have seen significant revenue growth and achieved considerable results through self-publishing in various markets. In light of the differences in market characteristics between the mainland China market and the markets outside of mainland China, we are poised to further penetrate the markets outside of mainland China through deepening cooperation with iOS App Store and Google Play and making more high-quality games available through major distribution channels. We will also strategically partner with Chinese game publishers with a notable global presence, such as Efun and G-MEI, to acquire a higher market share in overseas markets. See “Industry Overview — Overview of Chinese Mobile Game Exports.”

We endeavor to target and reach a broad range and variety of audience across geographic markets. We adhere to a long-term strategy to diversify game genres, themes and other features to attract a wide range of game players and to drive deep player engagement through continuously: (i) adapting our games to mobile operating systems, networks, mobile devices and standards in different regional markets; (ii) offering games with superior quality and compelling new content; (iii) adopting free-to-play model, which allows game players to download and try new games without up-front cost; (iv) introducing multiple elements into our games, such as e-sports, movies and TV series; and (v) adapting renowned IP to leverage its existing influence and to acquire new game players effectively.

We plan to advance our cooperation with world-renowned IP holders from whom we can source high-quality IP to enrich our game content. As of the Latest Practicable Date, we had been cooperating with a top-tier global movie production house with an established track record in producing fantasy serials to adapt sequels to its phenomenal epic movie with over USD1.5 billion gross box office earnings into a mobile game. In addition, we are in the negotiation process with a leading Japanese game developer for an IP licensing arrangement.

We will also bolster our relationships with international game publishers, distribution channels and mainstream media to facilitate the worldwide distribution of our games. We aim to publish larger number of our games through major distribution channels in and outside of mainland China, including iOS App Store, Google Play, TapTap, Tencent MyApp and Huawei AppGallery, and to devote more funds to mobile user acquisition campaigns on distribution channels. We will capitalize on a diverse range of traffic acquisition channels to steer user traffic to our games and to further expand our player scale. We also seek to collaborate with major distribution channels and mainstream media on market knowledge and insights. We strive to roll out more AAA titles on iOS App Store and Google Play, and editors of iOS App Store and Google Play may from time to time provide advices on game player preferences and market trends in the regional markets for our top-rated games. In addition, we have been cooperating with digital marketing agencies, such as Facebook, Google, YouTube and Instagram, to

BUSINESS

harness data and analytics thereby serving targeted ads to specific audience based on their interests and preferences. We have been working closely with Facebook to formulate digital marketing and other online strategies in the markets outside of mainland China.

Deepen partnerships within the industry ecosystem

We will deepen our strategic partnerships with third-party publishers, such as Tencent, and seek opportunities to cooperate with other third-party publishers and major distribution channels. We closely monitor and assess market feedback on our games and carry out game updates and optimization to ensure the success of our games.

To achieve greater cost efficiency, we will further our collaborations with partners such as game engine developers to customize advanced game engines, graphic design professionals to manage mass production work and music producers to compose quality soundtracks for our games.

We will continue to attend industry expos and conferences, including ChinaJoy, China ACG Conference, Tencent Neo-culture Creativity Conference and Unreal Open Day in mainland China and the Game Developers Conference in the United States. We also plan to engage celebrities as our game ambassadors and to organize offline gatherings of game ambassadors and game players to further promote our games.

Continue to enhance our profitability

We will invest in technology and network infrastructure to upgrade our data analytics system. We intend to enhance our data analytics capability and fine-tune our game quality based on in-depth analysis of player behavior, demographics and engagement data. We aim to stimulate in-game purchases and promote paying user conversion through improving paying user experience and design of in-game virtual items, thereby broadening our game player base and driving profitability and business growth.

Our game development team, in collaboration with our publishing and operation team, endeavors to optimize our games to prolong their life cycles and to increase game player engagement.

Pursue strategic investment and acquisition opportunities

The investment in and acquisition of target businesses, and the investment in investment funds are expected to fortify our leading position in China's mobile game industry and to align us for future growth. The vertical integration of and investment in the upstream and downstream businesses potentially provide us with additional revenue streams and expand our player scale across our publishing platforms and distribution channels. We aim to leverage target companies' complementary products, services and resources to diversify our business and acquire seasoned and innovative game development, publishing and operation personnel from the target companies. Investments in investment funds help strengthen our collaborations with upstream and downstream companies along the industry value chain.

Each of our investment projects, either the acquisition of or investment in a company or the investment in an investment fund, is evaluated based on a number of factors, including the target's competitive strengths, expertise of management teams, expected return and risks involved. The strategic acquisitions of and investments in potential game developers and content providers will enable us to secure development and talent resources to offer competitive and comprehensive product selections, to increase flexibility and efficiency in workforce and resource allocation during the game development process and

BUSINESS

to further enhance game quality and productivity through seamless cooperation with upstream businesses. We mainly evaluate the following factors when considering developers for acquisition: (i) the target company's track record in game development, taking into consideration management team's expertise and the representative projects that the core members of the target companies have participated in; and (ii) the capacity for innovation and ingenuity within the target company's graphic design team. We will also selectively pursue strategic investments and acquisition opportunities with domestic and overseas game publishers and distribution channels to tailor the publishing and distribution strategy for each of our games and to promote our games through a vast selection of platforms. For acquisitions of game publishers and distribution channels, we take into consideration factors including: (i) the scale of online network traffic and offline resources of the target company; and (ii) the performance and industry experience of the target company in the designated markets in order to achieve synergies with our existing business. For investment funds, the fund manager of the target investment fund is expected to have extensive experience and a sound investment track record in investing in equities, bonds or other fixed income securities. For any new businesses we plan to conduct in the PRC, the contractual arrangements will be used to the extent necessary to address any limits on foreign ownership under PRC laws and regulations; otherwise, we will directly hold the maximum interest permitted under the PRC laws and regulation in these new businesses. Since the new businesses which are not subject to any foreign investment prohibitions in the PRC would be conducted through our Company or its subsidiaries (as the case may be), while new businesses which are subject to any foreign investment prohibitions in the PRC would be conducted through our Consolidated Affiliated Entities or their subsidiaries, our Contractual Arrangements will continue to remain narrowly tailored.

OUR GAMES

We offer a mature and strategically selective portfolio of top-rated mobile games with excellent market reception globally. Recognizing our development capabilities and game quality, Tencent has collaborated with us to publish four AAA titles beginning in 2015, including *Loong Craft* (六龍爭霸/六龍御天), *Fantasy Zhuxian* (夢幻誅仙), *King of Kings/World of Kings* (萬王之王3D) and *Dragon Raja* (龍族幻想). Aiming to establish an enduring brand, we develop and enhance our quality games with passion and dedication and are committed to continuously building our capabilities to roll out new blockbuster titles. During the Track Record Period and up to the Latest Practicable Date, we launched and/or operated 14 mobile games, among which 11 mobile games, including nine MMORPGs and two others, were available for download on application stores as of the Latest Practicable Date and three mobile games had been terminated as of the same date. All of the 14 mobile games are self-developed games. We generated revenue of RMB1,309.2 million, RMB870.1 million and RMB1,067.2 million for 2017, 2018 and 2019, respectively. With a global vision, we actively expanded our business operations in markets outside of mainland China, including Hong Kong, Macau, Taiwan, Southeast Asia, South Korea, Japan, Europe and the Americas, and were rapidly able to capitalize on our established brand and mature business models to succeed internationally. We launched over 60 regional versions in 14 languages of these 14 mobile games through self-publishing and third-party publishing during the Track Record Period and up to the Latest Practicable Date. The appeal of our games has attracted a large community of game players worldwide. Our games have achieved great success in markets outside of mainland China. For instance, *King of Kings/World of Kings* (萬王之王3D) ranked third among all Chinese mobile MMORPGs published in South Korea in 2018 as measured by gross billings, according to Frost & Sullivan. *King of Kings/World of Kings* (萬王之王3D) and *Dragon Raja* (龍族幻想) ranked

second in 2018 and third in 2019, respectively, among mobile MMORPGs developed by Chinese game companies in Hong Kong and Taiwan in terms of gross billings, according to the same source. See “— Our Global Business — Our Business in Markets Outside of Mainland China.”

All of our games are developed in-house and most of them are mobile MMORPGs, allowing thousands of game players to play simultaneously and interact with one another within the game’s evolving virtual world. Game players role-play characters, customize their avatars, interact together and form alliances in the game and their avatars continue to evolve as events are constantly occurring across the game world. With a depth of content, compelling storylines and captivating images, we are able to create an exhilarating gameplay experience for our game players and retain their continual engagement with our games. See “— Our Games — Our Games’ Performance.”

We have a robust game pipeline and are progressively expanding and diversifying our portfolio. We continue to create games of new genres and seek opportunities for next-generation game development. We also form cooperative relationships with world-renowned IP holders to craft flagship games. As of the Latest Practicable Date, we had been cooperating with a top-tier global movie production house with an established track record in producing fantasy serials to adapt sequels to its phenomenal epic movie with over USD1.5 billion gross box office earnings into a mobile game. We expect to launch eight mobile games domestically and globally over the period from 2020 to 2022, covering the genres of MMORPG, SLG and others. We are also working on rolling out different regional versions of our games to extend our global reach. See “— Our Games — Our Game Pipeline.”

Our Landmark Games

We have a number of AAA titles that have achieved excellent market reception. Below are the descriptions of our selected landmark games during the Track Record Period and up to the Latest Practicable Date. The selection of games below is based on revenue, rating and market reception.

Dragon Raja (龍族幻想)



Dragon Raja (龍族幻想), launched on July 18, 2019, is China’s first next-generation real 3D mobile MMORPG powered by Unreal Engine 4. We utilized GPU particle effects in combination with global illumination, physically based rendering, cinematic techniques and the facial and body motion capture system, presenting the eponymous spectacular world of *Dragon Raja (龍族)*. The game uses real-time simulation technology to create a realistic environment in terms of factors such as the climate and weather system. The simulated environment in turn impacts the gameplay, introducing more variables to game players’ experience and stimulating their desire to explore the virtual world.

BUSINESS

The game offers a broad canvas of identities and occupations from all walks of life, allowing game players to develop various characters and gain distinctive gameplay experience. Game players can customize their virtual appearances and enjoy an immersive journey in the game's fantasy world. To further enrich the gaming experience and enhance the story-telling aspect, we sourced the IP of the fiction, *Dragon Raja* (龍族), which enjoys a significant fanbase, and adapted it to form the game's main storyline.

Dragon Raja (龍族幻想) ranked first among all mobile MMORPGs in terms of average MAUs in mainland China in 2019, ranked first on the Top Free Games Chart of the iOS App Store in mainland China on the first day of launch in July 2019 and ranked first on the Top Grossing Games Chart of the iOS App Store in mainland China for the entire week after launch. It also received international acclaim on multiple bestseller charts and recommendations from iOS App Store and Google Play. On the first day we published a new regional version of the game in the Americas and Europe in 2020, it ranked first among mobile MMORPGs and second among mobile RPGs based on iOS App Store downloads in the United States and sat among the top ten mobile games based on iOS App Store downloads in eight regional markets in Europe. It notched a top 40 entry on the Top Grossing Chart of the iOS App Store in the United States within three months after launch in the Americas. *Dragon Raja* (龍族幻想) is the first Chinese mobile MMORPG to top the Top Free Games Charts of both iOS App Store and Google Play Store in Japan since Chinese game companies began to establish their presence in the Japanese market in 2014. Following its debut appearance in Japan in April 2020, it ranked first on the Top Free Games Chart for eight consecutive days and sat among the top five on the Top Grossing Games Chart for 20 consecutive days in Japan's iOS App Store. It also ranked first on the Top Free Games Chart for nine consecutive days and sat among the top ten of the Top Grossing Games Chart for seven consecutive days in Japan's Google Play. In May 2020, we published another regional version of the game in Southeast Asia, which topped the Top Free Games Charts of both iOS App Store and Google Play in Thailand for eight consecutive days as well as the Top Free Games Chart of Google Play in Singapore for nine consecutive days. It also recorded top three on the Top Grossing Chart of Google Play in Thailand and top three on the Top Grossing Charts of iOS App Store in Singapore and the Philippines, respectively.

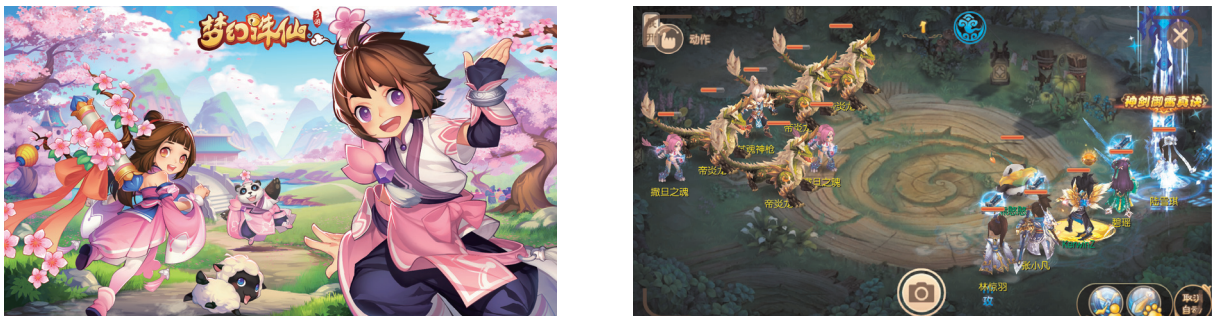
In mainland China, it generated gross billings of RMB1,334.9 million as of December 31, 2019, and it amassed over 10.0 million MAUs in the first month of launch. It won the titles of Best Battle Game of 2019 by Google Play Hong Kong store and the Unreal Open Day Most Anticipated Game of 2019 by Epic Games. As of the Latest Practicable Date, it was available in six regional versions supported in Simplified Chinese, Traditional Chinese, Korean, English, German, French, Russian, Japanese and Thai.

Loong Craft (六龍爭霸/六龍御天)



Loong Craft (六龍爭霸/六龍御天) is one of the first real 3D mobile MMORPG grand strategy wargames, which is powered by Unity 3D. We launched this original IP game for beta testing in mainland China on October 8, 2015. The game is powered by Unity 3D and set in the Three Kingdoms period, in which six powers strove to achieve dominance. It allows thousands of players to join forces in battles simultaneously, pitting them against each other in a massive world of epic and all-out warfare. Game players duke it out to survive clashes between the powers and to gain personal experience, aiming to grow into valiant generals. As of December 31, 2019, it had more than 17.2 million cumulative registered players and, during the Track Record Period, it was available in nine regional versions supported in Simplified Chinese, Traditional Chinese, Korean, English, Japanese, Vietnamese and Thai. Following its launch, *Loong Craft* (六龍爭霸/六龍御天) ranked top two for four consecutive months and top five for six consecutive months on the Top Grossing Games Chart of the iOS App Store in Taiwan. It generated gross billings of over RMB100.0 million in aggregate from all markets outside of mainland China in the first month of launch.

Fantasy Zhuxian (夢幻誅仙)



Fantasy Zhuxian (夢幻誅仙) is one of the pioneering real 3D turn-based mobile MMORPGs powered by Unity 3D. Launched on November 1, 2016, it features challenging tactical combat, continuous exploration and innovative gameplay, as well as strong social network components to encourage inter-player collaboration and community-building. The game supports multiplayer mode powered by a sophisticated flight-sim system and features an integrated platform that connects game players across servers. We licensed from Perfect World the IP of *Zhuxian* (誅仙), a fantasy and mythic fiction, and of *Fantasy Zhuxian* (夢幻誅仙), the client game adaptation of the fiction, to enhance the game's storyline and broaden its game player base. We use the advanced Element Data computing and data management system to improve the game's operational efficiency and flexibility. We also improved the game server by utilizing multiple databases on cloud infrastructure. As of the Latest Practicable Date, it was available in Simplified Chinese.

Acclaimed among turn-based game players, it ranked among the top 15 on the Top Grossing Games Chart of the iOS App Store in mainland China for four consecutive months following launch. Its average MAUs and average MPUs were 1.2 million and 0.3 million for 2017, respectively. As of December 31, 2019, it achieved gross billings of over RMB3.3 billion since launch and its cumulative registered players reached approximately 17.8 million. It has won multiple industry awards, including the Ten Most Popular Mobile Games of 2016 China Game Chart ranked by Tencent Games.

King of Kings/World of Kings (萬王之王3D)



King of Kings/World of Kings (萬王之王3D) is a mobile MMORPG powered by Unity 3D. Game players follow the main quest as one of our exquisitely designed classes which combines innovative and interactive gameplay and stunning graphical presentation. We crafted a grand seamless map with a 360-degree panorama in *King of Kings/World of Kings* (萬王之王3D), providing game players with a multisensory experience. The game adapted the IP of an earlier online game of the same name to tap into the existing game player base. We continuously rolled out new maps and dungeons to maintain a high level of game player engagement.

We launched the game on August 21, 2018 for paid beta testing. Its average MAUs and average MPUs for 2018 were 2.1 million and 0.3 million, respectively. It ranked first on the Top Free Games Chart of the iOS App Store in mainland China on the first day of launch and won the Best Original Mobile Game of 2018 Golden Plume Award.

We expanded the game's operation beyond mainland China and adopted it for operation in over 170 regional markets, including Hong Kong, Macau, Taiwan, Southeast Asia, South Korea, Europe and the Americas. As of the Latest Practicable Date, it was available in five regional versions supported in Simplified Chinese, Traditional Chinese, Korean, English, German, Russian, Thai and Indonesian. As its exquisite graphic designs, vast choices of classes and impressive storyline appealed to global markets, it rapidly gained in broad market acceptance among international game players. Our international

adaptations were often featured as recommendations on iOS App Store and Google Play. The Korean version, which was launched on November 8, 2018, ranked among the top ten of the Top Grossing Games Chart of the iOS App Store in South Korea, generating gross billings over RMB7.0 million within ten days of launch and climbing to over RMB33.0 million in the first month of launch.

The Castle in the Sky (天空紀元)⁽¹⁾



The Castle in the Sky (天空紀元) is a flight-sim mobile 3D MMORPG which we published directly through distribution channels in regional markets such as mainland China and the Americas during the Track Record Period. The game is characterized by its grand artistic design and advanced visual technologies including physically based rendering, global dynamic illumination and HD particle effects, featuring numerous social components and creative customizations. During the Track Record Period, it had six regional versions supported in Simplified Chinese, Traditional Chinese, Thai, Korean and English.

We published *The Castle in the Sky* (天空紀元) through different distribution channels, including Tencent MyApp (騰訊應用寶), Huawei AppGallery (華為應用市場) and its official game website with great success in mainland China. Following its launch in August 2017, it generated gross billings of over RMB100.0 million in the first month of launch and its MAUs reached more than 1.0 million in each of the first three months following launch. Within the third quarter of 2017, it remained among the top 20 most downloaded games of the iOS App Store in mainland China. It won the Best Mobile Game of 2017 China Game Developers Award, the Gamers' Pick Online Mobile Game of 2017 Golden Plume Award and the Best Mobile Game of 2017 by Global Mobile Game Confederation. It ranked among the top ten on the Global Top Grossing Games Chart ranked by App Annie in the first month of launch.

Note:

(1) The game was formerly titled *Novoland: the Castle in the Sky* (九州天空城3D).

Love & Sword (御劍情緣)






Love & Sword (御劍情緣) is a 3D MMORPG and one of our original IP games, featuring oriental fantasy and chivalric romance. With a broad selection of classes, occupations, single player/team mode and gameplay, game players are able to glide and battle in the game's 360-degree panoramic wonderland with partners and teammates. The game serves as a boundless social platform to foster close relationships among game players as friends, couples, gangs and apprentices in the virtual world. It also delivers a self-contained and standalone experience for game players of competitive action. During the Track Record Period, it had eight regional versions supported in Simplified Chinese, Traditional Chinese, Korean, Thai, English and Vietnamese.




Love & Sword (御劍情緣) was jointly launched by Zlongame, Mangofun (芒果互娛) and Youku Tudou (優酷土豆) on July 6, 2016. As a testament to its lasting appeal to game players and strong ability to monetize over an extended period of time, the average MAUs of the game exceeded 1.0 million for 14 consecutive months following its launch in July 2016. As of December 31, 2019, the game's cumulative registered players reached 21.3 million.

Our Existing Game Portfolio





The following table sets out the details of our existing games as of the Latest Practicable Date by order of revenue contribution during the Track Record Period.

Logo and Title	Mobile Game Genre	Languages	IP Source	Publishing Model(s) as of the Latest Practicable Date	Official Launch Date ⁽¹⁾	Highlights	Revenue Contribution during the Track Record Period	Major Market(s) ⁽²⁾	Life Cycle Stage as of the Latest Practicable Date ⁽³⁾	Expected Life Cycle ⁽³⁾⁽⁴⁾	Length of Growth Stage ⁽³⁾	Remaining Duration of the Life Cycle as of the Latest Practicable Date
 Fantasy Zhuxian (梦幻诛仙)	MMORPG	Chinese (Simplified)	Licensed IP	Third-party Publishing	November 1, 2016	<ul style="list-style-type: none"> Top 15 on the Top Grossing Games Chart of the iOS App Store in mainland China for four consecutive months following launch in November 2016 One of the Ten Most Popular Mobile Games of 2016 China Game Chart 	737.9	Mainland China	Maturity	72 months	Four months	28 months
 The Castle in the Sky (天空纪元)	MMORPG	Chinese (Simplified/Traditional), Korean and English	Original IP ⁽⁵⁾	Third-party Publishing/ Self-publishing	August 18, 2017	<ul style="list-style-type: none"> Best Mobile Game of 2017 China Game Developers Award Gamers' Pick Online Mobile Game of 2017 Golden Plume Award Best Mobile Game of 2017 by Global Mobile Game Confederation 	589.1	Mainland China Hong Kong, Macau and Taiwan	Maturity	45 months 39 months	Four months Five months	Ten months Six months
 King of Kings/World of Kings (霸王之王3D)	MMORPG	Chinese (Simplified/Traditional), Korean, English, German, Russian, Thai and Indonesian	Licensed IP	Third-party Publishing/ Self-publishing	August 21, 2018	<ul style="list-style-type: none"> First on the Top Free Games Chart of the iOS App Store in mainland China on the first day of launch in August 2018 Best Original Mobile Game of 2018 Golden Plume Award 	516.3	Mainland China Hong Kong, Macau and Taiwan South Korea Europe and the Americas	Maturity	60 months 35 months	Four months Five months	37 months 12 months

RMB million

Logo and Title	Mobile Game Genre	Languages	IP Source	Publishing Model(s) as of the Latest Practicable Date ⁽¹⁾	Official Launch Date ⁽¹⁾	Highlights	Revenue Contribution during the Track Record Period	Major Market(s) ⁽²⁾	Life Cycle Stage as of the Latest Practicable Date ⁽⁵⁾	Expected Life Cycle ⁽³⁾⁽⁴⁾	Length of Life Growth Stage ⁽⁵⁾	Remaining Duration of the Life Cycle as of the Latest Practicable Date
	MMORPG	Chinese (Simplified/Traditional), Korean, English, German, French, Russian, Japanese and Thai	Licensed IP	Third-party Publishing/ Self-publishing	July 18, 2019	<ul style="list-style-type: none"> First on the Top Free Games Chart of iOS App Store in mainland China on the first day of launch in July 2019 First on the Top Grossing Games Chart of the iOS App Store in mainland China within the first week of launch First among mobile MMORPGs and second among mobile RPGs based on iOS App Store downloads in the United States on the first day of launch in the Americas First Chinese mobile MMORPG topping the Top Free Games Charts of both iOS App Store and Google Play in Japan since Chinese game companies began to establish their presence in the Japanese market in 2014 First on the Top Free Games Charts of both iOS App Store and Google Play in Thailand for eight consecutive days after launch First on the Top Free Games Chart of Google Play in Singapore for nine consecutive days after launch 	389.3	Mainland China Hong Kong, Macau and Taiwan South Korea Europe and the Americas Japan Southeast Asia	Maturity Maturity	60 months 42 months	Three months Three months	48 months 32 months
	MMORPG	Chinese (Simplified/Traditional) and Vietnamese	Original IP	Third-party Publishing	July 6, 2016	<ul style="list-style-type: none"> Most Popular Game Product of 2016 Golden Apple Award Best Online Role-Playing Game of 2016 KingBonn Award 	312.8	Mainland China Hong Kong, Macau and Taiwan	Maturity Recession	72 months 57 months	15 months Eight months	24 months Ten months
	MMORPG	Chinese (Simplified) and Korean	Original IP	Third-party Publishing/ Self-publishing	February 23, 2017	<ul style="list-style-type: none"> Best Original Mobile Game of 2016 Golden Plume Award Top six on the Top Grossing Games Chart of the iOS App Store in mainland China in February 2017 	244.9	Mainland China South Korea	Recession Recession	45 months 41 months	Three months Three months	Four months Six months

RMB million

Logo and Title	Mobile Game Genre	Languages	IP Source	Publishing Model(s) as of the Latest Practicable Date	Official Launch Date ⁽¹⁾	Highlights	Revenue Contribution during the Track Record Period	Major Market(s) ⁽²⁾	Life Cycle Stage as of the Latest Practicable Date ⁽⁵⁾	Expected Life Cycle ⁽³⁾⁽⁴⁾	Length of Life Growth Stage ⁽⁵⁾	Remaining Duration of the Life Cycle as of the Latest Practicable Date
	MMORPG	Chinese (Simplified/Traditional) and Korean	Original IP	Third-party Publishing	October 8, 2015	<ul style="list-style-type: none"> Top two for four consecutive months and top five for six consecutive months on the Top Grossing Games Chart of the IOS App Store in Taiwan following launch in October 2015 	231.4	Mainland China Hong Kong, Macau and Taiwan	Maturity Recession	74 months 71 months	Seven months Seven months	18 months 15 months
<i>Long Craft</i> (六龍爭霸/ 六龍御天)												
	MMORPG	Chinese (Simplified)	Licensed IP	Third-party Publishing	March 4, 2016	<ul style="list-style-type: none"> Best IP Adaptation of 2016 by Baidu Games Best Mobile Game Adaptation of Movies and TV Series of 2016 Golden Apple Award 	62.7	Mainland China	Recession	60 months	Four months	Eight months
<i>Legend of Nine Tails Fox</i> (青丘狐傳說)												
	MMORPG	Chinese (Simplified/Traditional)	Licensed IP	Third-party Publishing	April 8, 2018	<ul style="list-style-type: none"> Adaptation of the client game <i>Aura Kingdom</i> (幻獸神域) Excellent reception in mainland China, Japan and South Korea 	18.9	Mainland China	Recession	30 months	Two months	Three months
<i>Fantasy Frontier M</i> (幻獸神域)												
	Others	Chinese (Simplified/Traditional), Korean, Japanese, French, German, Italian, Spanish and Russian	Original IP	Third-party Publishing/ Self-publishing	July 13, 2017	<ul style="list-style-type: none"> 9.1 rating on and recommendations from TapTap Over 2.0 million downloads on TapTap 	17.0	Mainland China	Maturity	66 months	Nine months	30 months
<i>Naval Creed</i> (戰艦聯盟)												

RMB million

Logo and Title	Mobile Game Genre	Languages	IP Source	Publishing Model(s) as of the Latest Practicable Date	Official Launch Date ⁽¹⁾	Highlights	Revenue Contribution during the Track Record Period	Major Market(s) ⁽²⁾	Life Cycle Stage as of the Latest Practicable Date ⁽⁵⁾	Expected Life Cycle ⁽³⁾⁽⁴⁾	Length of Growth Stage ⁽⁵⁾	Remaining Duration of the Life Cycle as of the Latest Practicable Date
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RMB million



GIORIOUS ELEVEN
Glorious Eleven
 (足球夢工廠)

Others	English	Original IP	Self-publishing	March 2, 2020	<ul style="list-style-type: none"> 9.1 rating on TapTap Adoption of the real-time artificial intelligence algorithm 	—	Worldwide (excluding mainland China)	Growth	24 months	Nine months	20 months
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Notes:

- (1) Official launch date is the date when the first regional version of the game is initially available for download through any distribution channel and external game players are able to make in-game purchases regardless of the market in which it is distributed.
- (2) Major markets are the ones we considered to be of strategic importance.
- (3) As our games are available in various regional versions, a game's life cycle is the life cycle(s) of the game's regional version(s) in the respective major market(s).
- (4) Expected life cycles (months) are estimated based on the industry average life cycles by different genres of games, our past experience of operating similar games and gross billings generated by the relevant game. However, the actual life cycles of these games may differ from the time presented in the table.
- (5) The game was developed in-house and formerly adopted the name of the TV series titled *Novoland The Castle in the Sky 2 (九州天空城2)* under the relevant IP licensing agreement, which was terminated on March 1, 2018.

BUSINESS

In line with our strategy to craft top-quality games, we concentrated on game content and quality by originating and sourcing premium IP, innovating technology and refining game design. The table below sets out the number of games in operation, newly launched and terminated during the Track Record Period, respectively.

	2017	2018	2019
Games			
In operation at the beginning of the year	6	8	12
Newly launched	3	4	1
Terminated	<u>1</u>	<u>0</u>	<u>2</u>
In operation at the end of the year	<u>8</u>	<u>12</u>	<u>11</u>

The table below sets out the number of different regional versions newly launched, terminated and in operation during the Track Record Period, respectively.

	2017	2018	2019
Regional Versions			
In operation at the beginning of the year	20	36	39
Newly launched	19	17	9
Terminated	<u>3</u>	<u>14</u>	<u>16</u>
In operation at the end of the year	<u>36</u>	<u>39</u>	<u>32</u>

Our Games' Performance

We measure our games' performance by six key operating metrics, namely (i) average MAUs, (ii) annual active users, (iii) average MPUs, (iv) annual paying users, (v) ARPU, and (vi) cumulative registered players.

The following table sets out these operating metrics for our mobile games in the markets in which we had presence for the periods indicated.

	<u>Year ended December 31,</u>		
	2017	2018	2019
Average MAUs ⁽¹⁾	4,290,317	3,054,803	3,442,199
Annual active users ⁽¹⁾⁽²⁾	34,963,243	24,866,622	28,205,822
Average MPUs ⁽¹⁾	652,414	403,443	501,533
Annual paying users ⁽¹⁾⁽³⁾	4,872,449	3,214,395	4,122,392
ARPU ⁽¹⁾ (RMB)	<u>25</u>	<u>24</u>	<u>26</u>
	<u>As of December 31,</u>		
	2017	2018	2019
Cumulative registered players ⁽¹⁾	<u>74,060,597</u>	<u>95,576,642</u>	<u>121,159,877</u>

BUSINESS

Notes:

- (1) The operating metrics for *Loong Craft* (六龍爭霸/六龍御天) in Europe and Vietnam are unavailable and the revenue contributions from these two regions were relatively small during the Track Record Period.
- (2) Annual active users are the total number of accounts which access any or all of our mobile games, as applicable, at least once during a calendar year.
- (3) Annual paying users are the total number of accounts which contribute to gross billings for any or all of our mobile games, as applicable, during a calendar year.

The following table sets out the revenue and performance of our five major mobile games in terms of revenue contribution over the Track Record Period for the periods indicated.

	Year ended December 31,		
	2017	2018	2019
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Revenue			
<i>Fantasy Zhuxian</i> (夢幻誅仙)	463.2	173.5	101.2
<i>The Castle in the Sky</i> (天空紀元)	275.5	221.3	92.3
<i>King of Kings/World of Kings</i> (萬王之王3D)	—	184.1	332.2
<i>Dragon Raja</i> (龍族幻想)	—	—	389.3
<i>Love & Sword</i> (御劍情緣)	185.2	66.2	61.4

	Year ended December 31,		
	2017	2018	2019
Average MAUs⁽¹⁾			
<i>Fantasy Zhuxian</i> (夢幻誅仙)	1,189,551	431,345	202,237
Market in Mainland China	1,168,078	428,285	202,159
Markets Outside of Mainland China	28,631	3,060	314
<i>The Castle in the Sky</i> (天空紀元)	1,425,825	480,123	192,292
Market in Mainland China	1,286,655	351,963	130,052
Markets Outside of Mainland China	231,951	128,160	62,240
<i>King of Kings/World of Kings</i> (萬王之王3D)	—	2,103,429	742,620
Market in Mainland China	—	1,799,999	287,810
Markets Outside of Mainland China	—	303,430	454,810
<i>Dragon Raja</i> (龍族幻想)	—	—	3,521,180
Market in Mainland China	—	—	3,271,724
Markets Outside of Mainland China	—	—	374,185
<i>Love & Sword</i> (御劍情緣)	1,193,594	384,930	180,619
Market in Mainland China	1,061,549	312,599	160,657
Markets Outside of Mainland China	132,044	72,332	19,962

BUSINESS

	Year ended December 31,		
	2017	2018	2019
Annual Active Users⁽²⁾			
<i>Fantasy Zhuxian</i> (夢幻誅仙)	8,227,659	2,743,523	1,257,831
<i>The Castle in the Sky</i> (天空紀元)	5,631,571	4,155,139	1,667,766
<i>King of Kings/World of Kings</i> (萬王之王3D)	—	7,892,286	5,831,243
<i>Dragon Raja</i> (龍族幻想)	—	—	15,426,243
<i>Love & Sword</i> (御劍情緣)	10,201,267	3,268,719	1,459,239
Average MPUs⁽¹⁾			
<i>Fantasy Zhuxian</i> (夢幻誅仙)	269,030	80,905	39,910
Market in Mainland China	267,038	80,638	39,910
Markets Outside of Mainland China	2,656	267	1
<i>The Castle in the Sky</i> (天空紀元)	205,752	49,871	19,265
Market in Mainland China	190,821	37,594	14,279
Markets Outside of Mainland China	24,885	12,277	4,986
<i>King of Kings/World of Kings</i> (萬王之王3D)	—	344,859	71,806
Market in Mainland China	—	308,256	36,510
Markets Outside of Mainland China	—	36,603	35,295
<i>Dragon Raja</i> (龍族幻想)	—	—	639,498
Market in Mainland China	—	—	617,518
Markets Outside of Mainland China	—	—	32,970
<i>Love & Sword</i> (御劍情緣)	147,217	47,845	24,834
Market in Mainland China	137,732	44,922	24,044
Markets Outside of Mainland China	9,485	2,923	790
Annual Paying Users⁽³⁾			
<i>Fantasy Zhuxian</i> (夢幻誅仙)	1,723,197	534,837	238,391
<i>The Castle in the Sky</i> (天空紀元)	831,086	414,819	152,361
<i>King of Kings/World of Kings</i> (萬王之王3D)	—	1,253,727	478,734
<i>Dragon Raja</i> (龍族幻想)	—	—	2,926,807
<i>Love & Sword</i> (御劍情緣)	1,147,645	341,786	156,160

BUSINESS

	Year ended December 31,		
	2017	2018	2019
ARPU (RMB)			
<i>Fantasy Zhuxian</i> (夢幻誅仙)	32	34	42
Market in Mainland China	33	33	40
Markets Outside of Mainland China	26	96	4,339 ⁽⁴⁾
<i>The Castle in the Sky</i> (天空紀元)	39	38	40
Market in Mainland China	41	44	36
Markets Outside of Mainland China	19	23	49
<i>King of Kings/World of Kings</i> (萬王之王3D)	—	18	37
Market in Mainland China	—	16	31
Markets Outside of Mainland China	—	24	41
<i>Dragon Raja</i> (龍族幻想)	—	—	18
Market in Mainland China	—	—	18
Markets Outside of Mainland China	—	—	20
<i>Love & Sword</i> (御劍情緣)	13	14	28
Market in Mainland China	11	13	27
Markets Outside of Mainland China	26	19	39
	As of December 31,		
	2017	2018	2019

Cumulative Registered Players

<i>Fantasy Zhuxian</i> (夢幻誅仙)	15,620,078	17,150,278	17,760,344
<i>The Castle in the Sky</i> (天空紀元)	5,631,639	9,243,338	10,630,081
<i>King of Kings/World of Kings</i> (萬王之王3D)	—	7,841,153	12,903,967
<i>Dragon Raja</i> (龍族幻想)	—	—	15,426,243
<i>Love & Sword</i> (御劍情緣)	<u>17,553,748</u>	<u>20,155,722</u>	<u>21,285,804</u>

Notes:

- (1) For certain games, there is a discrepancy between the game's average MAUs or average MPUs, as the case may be, in all markets and the sum of its average MAUs or average MPUs in mainland China and those in markets outside of mainland China for a particular year, mainly due to the difference between the duration of game operation in mainland China and that in markets outside of mainland China, resulting in different numbers of months used in calculating average MAUs or average MPUs in all markets and those in markets outside of mainland China.
- (2) Annual active users are the total number of accounts which access a particular mobile game at least once during a calendar year.
- (3) Annual paying users are the total number of accounts which contribute to gross billings for a particular mobile game during a calendar year.
- (4) For 2019, the total MAUs of *Fantasy Zhuxian* (夢幻誅仙) were relatively low as the regional versions of the game had reached their recession stages in markets outside of mainland China, while the revenue generated from such regional versions remained relatively high as we recognized revenue of fixed licensing fees and advance revenue share payments for the game from third-party publishers.

BUSINESS

According to Frost & Sullivan, for midcore to hardcore mobile games, game players who have been playing one mobile game for relatively long periods of time tend to have sustainable willingness to pay and strong purchasing capability on the condition that the game is being constantly maintained and updated. The upward trend in the ARPU of our top five mobile games during the Track Record Period is mainly attributable to (i) the games' ability to constantly engage and retain the core groups of game players who demonstrate high paying potential and substantial purchasing capability, and (ii) the enhanced monetization levels of our games as we continuously upgrade and diversify merchandising through offering built-in social features, newly released content and increased selection of in-game virtual items, despite a decrease in the games' respective average MPUs of the relevant years.

The average MAUs and average MPUs of our top five mobile games fluctuated in consonance with the orderly progression of the games' life cycle stages as well as the launch and termination of different regional versions of the games during the Track Record Period.

In addition to mobile games, during the Track Record Period, we operated one client game, *The Legend of Shushan* (蜀山縹緲錄). Since its termination in September 2019, we have gradually phased out our client game development business.

Game life cycle is the process starting from the time of game launch and ending at the time when the game is terminated. Our games typically have three-stage life cycles lasting over three years: (i) the growth stage, typically ranging from two to eight months, during which we build up player base and achieve market coverage; (ii) the maturity stage, typically 24 months, during which the number of game players and the gross billings generated remain stable; and (iii) the recession stage, during which the number of game players and the gross billings decline significantly. Accordingly to Frost & Sullivan, a game typically generates 25% to 35%, 55% to 65% and 10% to 20%, respectively, of the total revenue it generates throughout its life cycle at the growth stage, the maturity stage and the recession stage. According to Frost & Sullivan, the average length of our game life cycles is longer than the average length of mobile MMORPG life cycles (typically ranging from eight to 18 months) and our mobile games have extended maturity stages outrunning the average maturity stage of other mobile MMORPGs in the market, because we are able to keep game players constantly and deeply engaged through (i) providing immersive gaming experiences backed by our prominent development capabilities and advanced engine technology, (ii) delivering exquisite graphics and various gameplay methods, (iii) periodically releasing new content and features for our games in operation, and (iv) efficiently maintaining and optimizing our games to maximize their performance.

Our Game Pipeline

As a pioneer and innovator of mobile games, we continue to expand and diversify our portfolio progressively, further engage with our existing game players and attract new game players. Building upon our successful track record, we continuously develop high-quality mobile MMORPGs by integrating innovative gameplay and utilizing emerging technologies. We endeavor to explore new platforms and formats, such as visual reality and cloud gaming, and to seek opportunities for next-generation game development. With a worldwide distribution network, we continue rolling out new games in multiple regional versions and localizing our existing games in markets outside of mainland China. See “— Our Global Business — Our Business in Markets Outside of Mainland China” and “— Our Business Processes — Game Publishing — Self-publishing.”

BUSINESS

To build a diversified game portfolio across a wide range of genres, we expect to launch eight mobile games domestically and globally over the period from 2020 to 2022, covering the genres of MMORPG, SLG and others. The table below sets out certain information regarding our new games, including title, genre, IP source, development stage, expected launch date and major markets as of the Latest Practicable Date.

Title ⁽¹⁾	Mobile Game Genre ⁽¹⁾	IP Source	Development Stage as of the Latest Practicable Date ⁽¹⁾	Expected Launch Date ⁽¹⁾	Major Markets ⁽¹⁾
2020					
<i>Under the Firmament</i> (鴻圖之下)	SLG	Original IP	Game Production	Q3, 2020	Mainland China and East Asia
<i>The New World</i> (夢想新大陸)	MMORPG	Original IP	Game Production	Q4, 2020	Mainland China
2021					
<i>Noah's Heart</i> (諾亞之心)	MMORPG	Original IP	Game Production	Q1, 2021	Worldwide
<i>Sango Heroes</i> (三國群英傳)	SLG	Licensed IP	Game Proposal	Q4, 2021	Worldwide
2022					
<i>Project A</i> ⁽²⁾⁽³⁾	Others	Original IP	Game Production	Q1, 2022	Worldwide
<i>Project B</i> ⁽²⁾	MMORPG	Licensed IP	Game Production	Q1, 2022	Worldwide
<i>Project C</i> ⁽²⁾	SLG	— ⁽²⁾	Market Research and Game Proposal	Q3, 2022	Worldwide
<i>Project D</i> ⁽²⁾	MMORPG	— ⁽²⁾	Market Research and Game Proposal	Q4, 2022	Worldwide

Notes:

- (1) The game pipeline is indicative as of the Latest Practicable Date. The title, genre, expected launch date, major markets and other information of each game in the pipeline may be subject to further changes according to their respective development and preapproval status.
- (2) The game title or IP status, as applicable, of the respective game is pending.
- (3) We plan to integrate female-oriented game design in the game.

As of the Latest Practicable Date, we did not have any new regional version of games in the pipeline.

BUSINESS

AWARDS AND RECOGNITION

We have received recognition for the quality and market reception of our games. Some of the significant awards and recognition we received as of December 31, 2019 are set out below.

Award/Recognition	Award Year	Awarding Institution/ Authority	Entity/Product
Best of 2019 — Best Battle Game	2019	Google Play Hong Kong Store	<i>Dragon Raja</i> (龍族幻想)
Unreal Open Day — Most Anticipated Game	2019	Epic Games	<i>Dragon Raja</i> (龍族幻想)
China Game Developers Award — Best Original Music Award (中國優秀遊戲製作人大賽最佳原創音樂獎)	2018	Shanghai Hanwei Xinheng Exhibition Co., Ltd. (上海漢威信恒展覽有限公司)	<i>King of Kings/World of Kings</i> (萬王之王3D)
Golden Plume Award — Best Original Mobile Game of the Year (金翎獎年度最佳原創移動遊戲)	2018	Shanghai Hanwei Xinheng Exhibition Co., Ltd. (上海漢威信恒展覽有限公司)	<i>King of Kings/World of Kings</i> (萬王之王3D)
China's Premium Original Game Publishing Project of the Year (年度中國原創遊戲精品出版工程)	2017	General Office of SAPPRFT (國家新聞出版廣電總局辦公廳)	<i>Nirvana in Fire II</i> (琅琊榜：風起長林) and <i>The Castle in the Sky</i> (天空紀元)
Best Mobile Game of the Year (年度最佳移動網絡遊戲)	2017	Global Mobile Game Confederation	<i>The Castle in the Sky</i> (天空紀元)
Golden Plume Award — Gamers' Pick Online Mobile Game of the Year (金翎獎玩家最喜愛的移動網絡遊戲)	2017	Shanghai Hanwei Xinheng Exhibition Co., Ltd. (上海漢威信恒展覽有限公司)	<i>The Castle in the Sky</i> (天空紀元)
China Game Developers Award — Best Mobile Game of the Year (中國優秀遊戲製作人大賽最佳移動遊戲製作獎)	2017	Shanghai Hanwei Xinheng Exhibition Co., Ltd. (上海漢威信恒展覽有限公司)	<i>The Castle in the Sky</i> (天空紀元)
China's Top Ten Emerging Game Enterprise Awards (中國十大新銳遊戲企業獎)	2016	China Game Industry Annual Conference (中國遊戲產業年會)	Tianjin Loong
China Game Chart — Most Popular Mobile Game Developer of the Year (中國遊戲風雲榜年度人氣手遊研發公司)	2016	Tencent Games (騰訊遊戲)	Tianjin Loong
Youding Award — Best Game Development Enterprise Award (游鼎獎最具實力遊戲研發企業獎)	2016	Game Association Summit Forum (遊聯社高峰論壇)	Tianjin Loong
China Game Chart — The Ten Most Popular Mobile Games of the Year (中國遊戲風雲榜十大最受歡迎手機遊戲)	2016	Tencent Games (騰訊遊戲)	<i>Fantasy Zhuxian</i> (夢幻誅仙)

BUSINESS

OUR BUSINESS SEGMENTS

Our principal lines of business comprise development and licensing business and integrated game publishing and operation business. The following table sets out our revenue by business segment for the periods indicated.

	Year ended December 31,					
	2017		2018		2019	
	<i>RMB million</i>	%	<i>RMB million</i>	%	<i>RMB million</i>	%
Development and licensing	911.2	69.6	601.5	69.2	821.5	77.0
Revenue share	859.4	65.6	537.3	61.8	739.8	69.3
Non-refundable fixed licensing fees . .	51.8	4.0	64.2	7.4	81.7	7.7
Integrated game publishing and operation	383.5	29.3	265.7	30.5	245.7	23.0
Others	<u>14.5</u>	<u>1.1</u>	<u>2.9</u>	<u>0.3</u>	<u>0.0</u>	<u>0.0</u>
Total	<u><u>1,309.2</u></u>	<u><u>100.0</u></u>	<u><u>870.1</u></u>	<u><u>100.0</u></u>	<u><u>1,067.2</u></u>	<u><u>100.0</u></u>

Development and Licensing

Leveraging our profound market insights as well as technological and operational expertise, we have developed a number of high-quality mobile games. See “— Our Business Processes — Game Development — In-house Research and Development.” To monetize our games, we primarily license our games to third-party publishers and recognize revenue under the development and licensing segment, which accounted for 69.6%, 69.2% and 77.0% of our total revenue of 2017, 2018 and 2019, respectively. See “— Our Business Processes — Game Publishing — Third-party Publishing.” We also provide ongoing game management services for our games to third-party publishers and certain technical support to game players who download games directly from our third-party publishing partners. See “— Our Business Processes — Post-launch Operations.” We receive revenue share payments from third-party publishers. On a case-by-case basis, we may receive a licensing fee, which is a fixed amount typically paid by instalment over a period of approximately one year under the licensing agreement and an advance revenue share payment which is credited towards the revenue share payments by the publisher. Occasionally, some third-party publishers may provide incentive fees when the games’ gross billings reach certain prescribed amounts. See “— Monetization and Pricing.”

Integrated Game Publishing and Operation

We also publish a number of self-developed games through distribution channels. See “— Our Business Processes — Game Development — In-house Research and Development” and “— Our Business Processes — Game Publishing — Self-publishing.” We recognize revenue from such business operations under the integrated game publishing and operation segment, which accounted for 29.3%, 30.5% and 23.0% of our total revenue for 2017, 2018 and 2019, respectively. The flexibility across distribution channels is crucial for growing our game player base and ensuring the continued engagement of game players. We publish our games through iOS App Store and Google Play as well as a number of domestic distribution channels such as Tencent MyApp, Huawei AppGallery, Oppo App Market, VIVO App Store, TapTap and Xiaomi App Store. See “— Our Business Processes — Game Publishing — Self-publishing” and “— Our Business Processes — Game Distribution.” For the games

BUSINESS

which we publish through third-party distribution channels as a direct publisher, we typically receive an amount equivalent to 45% to 70% of a game’s gross billings. See “— Monetization and Pricing.” We also distribute a small portion of our games through our self-operated distribution channels, namely the official websites for our games, and we collect gross billings paid by game players directly from payment channels. We constantly maintain and optimize our games and offer a broad range of player services and technical support to game players of our self-published games. See “— Our Business Processes — Post-launch Operations.”

OUR GLOBAL BUSINESS

With a global vision, we actively expanded our business operations in overseas markets and were able to capitalize on our established brand and mature business model to succeed internationally. The following table sets forth our revenue by geographic market for the periods indicated.

	Year ended December 31,					
	2017		2018		2019	
	Amount	% of total	Amount	% of total	Amount	% of total
	<i>RMB</i> <i>million</i>	%	<i>RMB</i> <i>million</i>	%	<i>RMB</i> <i>million</i>	%
Market in Mainland China	1,076.2	82.2	678.9	78.0	723.1	67.8
Markets Outside of Mainland China . .	233.0	17.8	191.2	22.0	344.1	32.2
Hong Kong, Macau and Taiwan . . .	105.5	8.1	88.4	10.2	80.4	7.5
Japan and South Korea	71.3	5.4	69.2	8.0	91.0	8.5
Southeast Asia	47.4	3.6	25.9	3.0	87.9	8.2
Europe and the Americas	8.8	0.7	7.4	0.8	84.8	8.0
Others	—	—	0.3	0.03	—	—
Total	<u>1,309.2</u>	<u>100.0</u>	<u>870.1</u>	<u>100.0</u>	<u>1,067.2</u>	<u>100.0</u>

Our Business in Mainland China

We primarily focus on our business operations in the domestic market. For 2017, 2018 and 2019, we derived a substantial amount of revenue from our business operations in mainland China, accounting for 82.2%, 78.0% and 67.8%, respectively, of our total revenue for the same periods. Our landmark games and brands are highly acclaimed in China’s mobile game industry and make us one of the leading mobile game developers in China, according to Frost & Sullivan. We won multiple prestigious awards for our preeminent performance in the industry, such as China’s Top Ten Emerging Game Enterprise Award (中國十大新銳遊戲企業獎) granted by China Game Industry Annual Conference in 2016 and the Most Popular Mobile Game Developer of 2016 China Game Chart (中國遊戲風雲榜年度人氣手遊研發公司) granted by Tencent Games (騰訊遊戲). See “— Awards and Recognition.” We work closely with leading publishers and various major distribution channels in China to attract a large and growing player base. See “— Our Business Processes — Game Publishing — Third-party Publishing — Our Publishing Partners in Mainland China” and “— Our Business Processes — Game Distribution.”

Our Business in Markets Outside of Mainland China

We reach a broad global audience by leveraging our effective international distribution network, launching regional versions for our games, creating localized game content and partnering with international social network platforms. In late 2015, we commenced our global business operations by entering into licensing agreements with local third-party publishers in Hong Kong, Macau, Taiwan, Southeast Asia and South Korea. Benefiting from our in-house research and development capabilities and experience in mainland China, we have tapped into markets in over 170 countries and regions, including Hong Kong, Macau, Taiwan, Southeast Asia, South Korea, Japan, Europe and the Americas during the Track Record Period. According to Frost & Sullivan, we have achieved notable success in various regional mobile game markets during the Track Record Period, and are one of the leading gaming companies bringing mobile MMORPGs to other emerging markets. During the Track Record Period, our self-developed mobile MMORPGs were ranked among the top five Chinese mobile MMORPGs in South Korea in terms of gross billings, according to the same source. We offer our global player community a wide variety of regional versions of our games and have seen significant growth in cumulative registered players in international markets. During the Track Record Period, our business operations in markets outside of mainland China accounted for 17.8%, 22.0% and 32.2%, respectively, of our total revenue for 2017, 2018 and 2019.

In markets outside of mainland China, we either act as a direct publisher publishing our games through iOS App Store and Google Play or cooperate with third-party publishers in consideration of entry barriers, financial forecast and localization difficulties in the designated markets.

We apply demanding standards to screen third-party publishing partners in markets outside of mainland China by evaluating (i) their competitiveness and resources in the regional markets, (ii) their localization and operational capabilities and (iii) their track records in publishing and distributing foreign mobile games. During the Track Record Period, our overseas publishing partners included Efun, one of the major Chinese game publishers with overseas operations and G-MEI, a game publisher indirectly owned by 37 Interactive Entertainment. See “— Our Business Processes — Game Publishing — Third-party Publishing — Our Publishing Partners in Markets Outside of Mainland China.” We also publish our games through iOS App Store and Google Play mainly in the markets of Hong Kong, Macau, Taiwan, Southeast Asia, South Korea, Japan, Europe and the Americas.

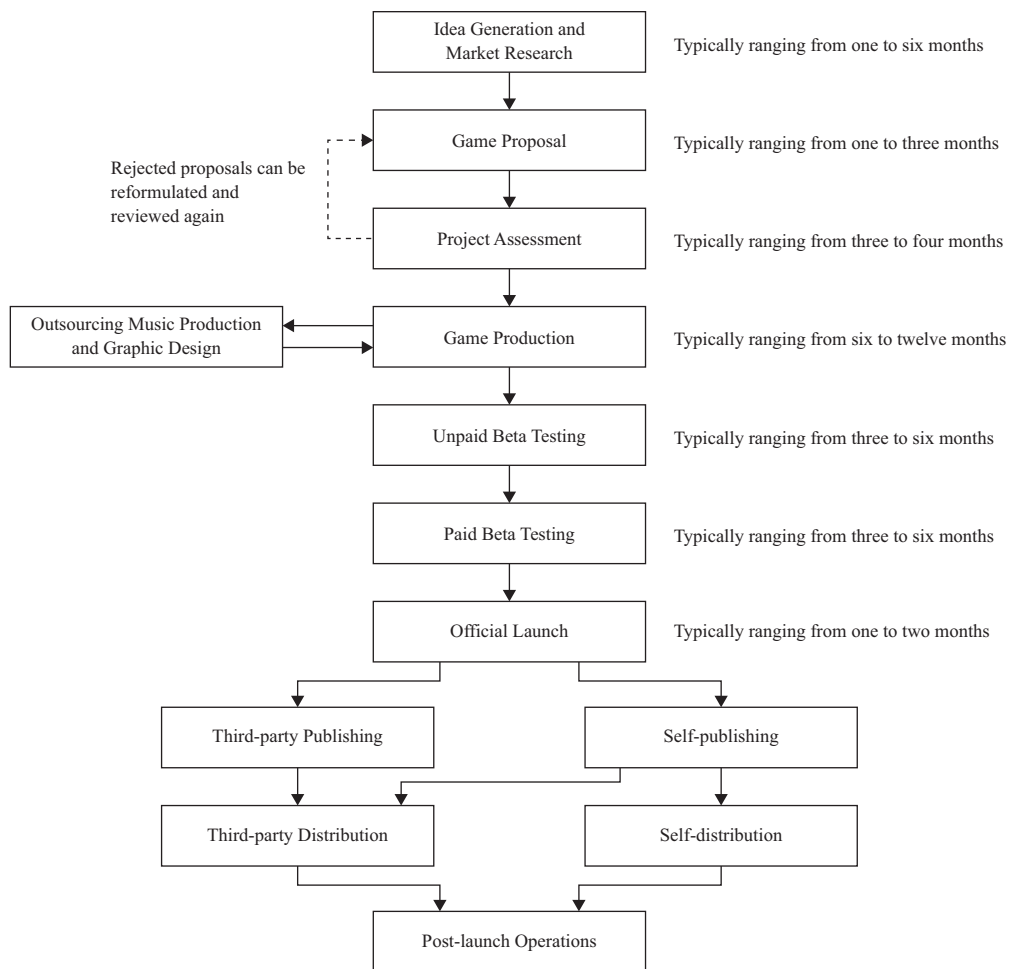
We have a dedicated overseas publishing and operation team primarily responsible for: (i) short-term and long-term planning to create initiatives and development plans based on market feedback in each region; (ii) engaging in localization activities specifically tailored to game players in the designated markets, taking into consideration game player characteristics, demand and preferences; and (iii) strategizing and implementing online and offline campaigns in various markets. For the games which we publish through international distribution channels, our overseas publishing and operation team, along with our program center, is responsible for creating different regional versions to cater to target markets and diverse cultures. Our localization activities include, but are not limited to: (i) developing local language scripts for the game programs; (ii) customizing the user interfaces and default avatars in terms of their skin color, hairstyles and makeup, as appropriate to specific markets and ethnic audience; and (iii) launching seasonal and holiday in-game promotions tailored to each region, such as the in-game promotions during the Carnival in Brazil and Songkran in Thailand. Our game development platform

BUSINESS

builds in multiple-language capability, which supports our timely expansion into international markets by streamlining the localization process. See “— Our Business Processes — Game Publishing — Self-publishing.”

To execute our growth initiatives in tandem with our commitment to build an international brand, we are poised to further expand our business in areas including Hong Kong, Macau, Taiwan, Southeast Asia, South Korea, Japan, Europe and North America and to substantiate our presence in emerging geographic markets, including Latin America and India, which we deem to have great growth potential. According to Frost & Sullivan, the mobile game market in India is expected to exhibit significant growth in the foreseeable future. The current penetration of India’s mobile games compared with its total population was 20% in 2019 and therefore Frost & Sullivan holds the view that there remains great growth potential for India’s mobile game market. In Latin America, which is home to a population of over 650 million, there are also indications of large growth potential in the number of mobile game players, such as the penetration rate of mobile internet users having exceeded 50% in 2019 and the increasing prevalence of smartphones in the region, according to the same source.

OUR BUSINESS PROCESSES



Game Development

In-house Research and Development

All of our games are developed in-house and, to maintain a competitive edge, our games have undergone a rigorous process of research, appraisal, development and testing. We have invested and will continue to invest substantial resources in game development activities. We incurred research and development expenses of RMB455.5 million, RMB327.6 million and RMB389.2 million in 2017, 2018 and 2019, respectively, accounting for 34.8%, 37.7% and 36.5%, respectively, of our total revenue for the same periods. See “Financial Information — Description of Major Components of Our Results of Operations — Research and Development Expenses.”

Our game development primarily focuses on designing new games, optimizing existing games, innovating gameplay, originating game content and enhancing player experience. As of the Latest Practicable Date, we had a research and development center with 871 employees, 236 of whom each has over ten years’ experience in game development. Approximately 46% of our employees in the program center and the engine center had postgraduate degrees as of the Latest Practicable Date. See “ — Employees.”

Idea Generation, Market Research and Game Proposal

We are at the cutting edge of technological breakthroughs, innovative concepts and the latest trends in the game industry. We also endeavor to generate new ideas from our continuous study of game player demand, preferences and feedback based on our past and existing games. See “— Our Business Processes — Post-launch Operations — Ongoing Game Management.”

Following idea generation, our dedicated game development team, usually consisting of five to ten members, conducts research and analysis regarding the new project’s background, target market segment and game positioning (including genre, gameplay, graphic design, core technology and competitive strengths). It further formulates a detailed game development proposal based on market research, as well as a tentative timeline and financial forecast. The proposal is subsequently submitted to the project committee for review. Subject to the project committee’s initial approval, the game development team prepares a game demo within the certain budget approved by the project committee. If the game development team fails to obtain the initial approval, it will either reformulate or abort the proposal.

Project Assessment

When the game demo is completed, the game development team schedules a project assessment meeting with the project committee (which is held within three months (or four months upon application) after receiving the initial approval) and submits a full-featured project report concurrently. The project committee takes charge of conducting internal assessment of the project report together with the game demo in terms of its features, potential audience, development and operational cost and revenue forecast. The project assessment meeting takes the form of question-and-answer and is concluded with the project committee’s deliberation and vote. The game development team is informed by email of the project committee’s decision and has the opportunity to appeal within one to three months in the event that the project is turned down. If the appeal fails, the proposal will be terminated. During the Track Record

Period, approximately 90% of the game development proposals completed the process and entered into the production phase. Through our exacting criteria and fierce competition among proposals and demos, we are able to focus on those development proposals with the highest quality and potential.

Game Production

Once a project report passes the assessment, we commence a game project and enter into the production stage. The game development team, depending on the project scale, expands into a fully fledged game project group of 20 to 200 people with diverse expertise, including data engineers, graphic designers and sound engineers. We control the work product quality through conducting internal tests by specialized testers from our testing center and periodical reviews by our project management team. Testers are exclusively assigned to one or two game development projects and carry out tests on any phase or subset of the game program available to them. Following each test, they submit written reports to the game project group with instructive proposals. Development of game production is reported to the project management team on a bi-weekly basis throughout the game production process, which typically lasts over one year. Our project management team closely monitors the game development process, coordinates resources, resolves technical issues as they arise and improves the performance of the game to achieve the stipulated target in the project report.

Game Registration

After the game development group completes the majority of the project, we engage publishing service providers as our agents to apply for game registration with the relevant authorities. It typically takes six to nine months to obtain game registration approval. See “— Licenses and Permits.”

Unpaid and Paid Beta Testing

Once a project is close to completion, the game is put through several rounds of tests for accessibility, usability, reliability and functionality, including unpaid beta testing and paid beta testing.

Testers, together with several staff members who are not working on the game project, run an initial closed playtest for bugs and design flaws and move to unpaid beta testing upon resolving those issues. Before releasing the game to unpaid beta testing, our project management department arranges for a panel of senior developers, programmers and graphic designers from the project committee to discuss with the core members of the game project group on the game’s development progress. The game project group proceeds to optimize the current version based on the discussion and, following the introduction of customer services, releases the game to a limited audience.

Upon resolving major technical issues and obtaining regulatory approvals for the games, we put new games into paid beta testing through selective distribution channels. Prior to entering paid beta testing, we place advertisements on social network and media platforms to increase our game traffic and invite external game players to play the game. See “— Marketing and Promotion — Online Marketing and Promotion.” During paid beta testing, game players are allowed to purchase in-game virtual items. We monitor and analyze game player activities to assess engagement levels, adjust the pricing of virtual items and evaluate the game’s monetization potential. Third-party publishers, in some cases, work with us in capturing and analyzing operating metrics for the game to estimate and forecast its performance and profitability.

Official Launch

Following a program of internal screening and unpaid and paid beta testing, assuming that no further technical issues are detected, we officially publish the game through third-party publishing or self-publishing, making it available to the general public via a number of distribution channels. However, the development process can be terminated by our management team at any time before launch if it is deemed commercially undesirable due to adverse changes in market trend and monetization forecast. See “Risk Factors — We may not be successful in developing new games and if we are unable to effectively control our research and development cost, our results of operations may be adversely and materially affected.”

Development Outsourcing

We outsource certain tasks, including music production and graphic design, to third-party studios by which we are able to optimize our resources and workforce productivity and achieve greater cost efficiency in the development process. While our in-house graphic design team is responsible for idea generation and design management, we contract certain mass graphic production work to third-party companies in order to meet the tight schedule of game development and project launch. We also cooperate with elite music producers to produce quality soundtracks for our games. We have maintained sound business relationships with our outsourcing partners typically for more than three years and most of our outsourcing partners during the Track Record Period were Independent Third Parties. We select and commission reputable outsourcing partners in related areas, such as Juxian Music (巨弦), a notable music production house in mainland China, Bingguo (冰果), a graphic design company in mainland China, and Kim Tai-gyun, a graphic designer in South Korea, and we evaluate their work quality before entering into outsourcing agreements with them. Under the agreements, we stipulate scope of outsourcing work, specifications of required deliverables, acceptance standard, right to change deliverables and delivery timetable. In addition, we have the right to conduct periodical reviews of work in progress and to check improvements according to the agreement. Apart from the right of authorship for music work, we are entitled to ownership and intellectual property rights of the work. We are able to accelerate our development process to achieve scalable business growth by this arrangement and at the same time, we can utilize our outsourcing partners’ expertise and ensure the quality of our graphic design through our stringent quality control measures.

Game Publishing

We publish our games directly through distribution channels and in collaboration with third-party publishers. We are able to increase our revenue predictability during any potential market dislocation when we publish our games in collaboration with third-party publishers, as we may receive non-refundable fixed licensing fees in addition to revenue share from third-party publishing partners who are in charge of certain operations such as localization and game marketing and promotion at their expense. By contrast, acting as a direct publisher enables us to have multiple revenue streams along the industry value chain and to support the expansion of our publishing and operation business globally. We benefit from the flexibility of choosing between different publishing options by dynamically evaluating (i) the genre of the game to be published; (ii) the projected gross billings and market share of the game in the regional market; and (iii) cost-efficiency by taking into account cost and expenses to be incurred and revenue forecast of the game.

Third-party Publishing

We mainly publish our games in cooperation with third-party publishing partners, from whom we receive revenue share payments and, in some cases, fixed licensing fees without incurring excessive costs in relation to marketing, promotion and distribution. We derived a significant percentage of our revenue from games published through third-party publishers in and outside of mainland China during the Track Record Period. See “— Our Business Segments — Development and Licensing.”

Our criteria for selection of prospective third-party publishing partners include, but are not limited to, their scale of operation and track records in regional markets, financial resources, market reputation and influence, creditworthiness and management capabilities. Generally, we enter into exclusive licensing agreements with third-party publishers. Under these agreements, we grant third-party publishers an exclusive and non-transferable license to publish and distribute certain regional versions of a related game in a designated territory for a specified term. See “— Our Customers — Third-party Publishers.”

Our Publishing Partners in Mainland China

We work closely and have fostered sustainable strategic alliance with top-notch publishers in mainland China, including Tencent and Zlongame, to publish and promote our games. Tencent has engaged in joint projects with us to publish four AAA titles in the domestic market. *Dragon Raja* (龍族幻想), one of the most recent titles published by Tencent, topped the Top Free Games Chart of the iOS App Store in mainland China on the first day of launch and subsequently ranked first on the Top Grossing Games Chart of the iOS App Store in mainland China for the entire week following launch. See “— Our Games — Our Landmark Games.”

Based on our past success, domestic publishers are seeking deeper cooperation with us and procuring our games at their early stages of development. For some of our games, including *Loong Craft* (六龍爭霸/六龍御天), *Fantasy Zhuxian* (夢幻誅仙), *King of Kings/World of Kings* (萬王之王3D) and *Dragon Raja* (龍族幻想), publishers entered into exclusive licensing agreements with us at the project assessment stage of these games. As of the Latest Practicable Date, we had entered into exclusive game licensing agreements with Tencent on three of our original IP games in the pipeline.

Our Publishing Partners in Markets Outside of Mainland China

We have established our worldwide distribution network and built extensive connections with third-party publishing partners all over the globe, including Hong Kong, Macau, Taiwan, Southeast Asia, South Korea, Japan, Europe and the Americas. During the Track Record Period, our overseas publishing partners included Efun, one of the major Chinese game publishers with overseas operations and G-MEI, a game publisher indirectly owned by 37 Interactive Entertainment. The overseas publishers seek partnership with us to publish our games in their respective markets, and enter into licensing agreements with us typically before the official launch of the games in mainland China. We are able to accelerate the global publishing process by expediting the engagement process of overseas publishers as well as by localizing content within a short time span. Similar to our business models in mainland China, we act as a direct publisher or cooperate with international and local third-party publishers in consideration of barriers to entry, financial forecast and localization difficulties.

We set demanding standards to screen candidates for publishing partners in markets outside of mainland China and stipulate favorable terms in the licensing agreements in order to secure our interest. Under the licensing agreements, we retain titles to all intellectual property and engage local publishers to manage marketing and promotion, localization of game content, and distribution in their respective markets. We require advance revenue share payments from third-party publishers in markets outside of mainland China which are credited towards the revenue share payments by the publishers. See “— Monetization and Pricing.”

Self-publishing

As our game portfolio expands in scale and scope, we have gradually increased our self-publishing practice and published a diverse selection of games on distribution channels. In 2017, 2018 and 2019, we published three, four and one of our games, respectively, and five, five and four different regional versions of our games, respectively.

We manage marketing, promotion and distribution throughout the publishing process. Before launching a game for paid beta testing, we advertise on mainstream media applications and on social networks, such as Facebook, Google, TapTap, TikTok, Toutiao, Kwai, Weixin, QQ Mobile, Tencent News, Mobile Baidu and Weibo. See “— Marketing and Promotion — Online Marketing and Promotion.” Upon concluding paid beta testing and when ready for official launch, we distribute our games through a variety of distribution channels. See “— Our Business Processes — Game Development — In-house Research and Development — Unpaid and Paid Beta Testing” and “— Our Business Processes — Game Distribution.” We have achieved considerable results through self-publishing in various markets. For example, we published regional versions of *Dragon Raja* (龍族幻想) in the Americas and Europe in 2020 and notched a top 40 entry on the Top Grossing Chart of the iOS App Store in the United States within three months after its launch in the Americas. The game ranked first among mobile MMORPGs and second among mobile RPGs based on iOS App Store downloads in the United States on the first day of launch in the Americas and sat among the top ten mobile games based on iOS App Store downloads in eight regional markets in Europe on the first day of launch in Europe. We published *The Castle in the Sky* (天空紀元) in mainland China and generated gross billings of over RMB100.0 million in the first month of launch. As self-publishing has proven a great success and our game player base is growing rapidly across domestic and overseas distribution channels, we plan to publish three or four games in markets such as Hong Kong, Macau, Taiwan, Southeast Asia, South Korea, Japan, Europe and the Americas.

For the games which we publish on global distribution channels, our overseas publishing and operation team and program center are responsible for creating different regional versions of our games tailor-made for target markets. Our localization activities include developing local language scripts for the game programs and customizing the user interfaces and default avatars, including their skin colors, hairstyles and makeup, as appropriate to specific markets and ethnic audience. See “— Our Global Business — Our Business in Markets Outside of Mainland China.”

Game Distribution

For the integrated game publishing and operation segment, we publish our games through a diverse range of third-party distribution channels and our self-operated distribution channels.

Third-party Distribution Channels

To obtain access to a large existing player base domestically and globally, we publish our games through iOS App Store and Google Play as well as a number of domestic distribution channels such as Tencent MyApp, Huawei AppGallery, Oppo App Market, VIVO App Store, TapTap and Xiaomi App Store. We constantly receive recognition from third-party distribution channels for our games' market reception, innovative features and cutting-edge technology. See “— Awards and Recognition.”

We enter into non-exclusive distribution agreements with third-party distribution channels and the distribution agreements typically contain the following salient terms:

- Term. The terms of agreements typically range from one to two years.
- Principal Rights and Obligations of Parties Involved. We are required to deliver the games as specified in the agreement and render operation and maintenance services and game player services. Third-party distribution channels are required to promote and advertise the games on their respective platforms.
- Payment. We typically receive an amount equivalent to 50% to 70% of the amount equal to the game's gross billings after deducting certain expenses such as payment channel service fees, and such amount received would be equivalent to 45% to 70% of the game's gross billings.
- Termination. Either party may terminate the agreement in the event that the other party breaches any provision thereunder. Occasionally, third-party distribution channels may terminate the agreement: (i) when any major system error or material technical issue caused by us occurs and persists for a period of 45 days; (ii) when the operating metrics no longer justify the game's operations; or (iii) when the third-party distribution channels deem it is no longer necessary to carry on operation.
- Indemnification. We shall defend, indemnify and hold harmless the third-party distribution channels from and against any and all third-party claims and losses arising from (i) our use of the distribution channels in violation of the agreement; (ii) the infringement or violation by our games of any IP right or any other right of any person; or (iii) the violation of any law by us or our games.

Self-operated Distribution Channels

To increase our exposure to competitors and to exercise control over distribution channels, we distribute our games through our proprietary distribution channels. On these distribution channels, game players can log on to our official website and official Weixin account to download our games. Our games are also accessible on major social network platforms in and outside of mainland China, such as QQ, Weibo, Facebook and Line, to game players who can invite their friends to join the game by sharing the link and scanning the QR code of the game. During the Track Record Period and up to the Latest Practicable Date, our self-operated distribution channels were exclusively used for distributing our games that we directly published.

Payment Channels

In the games we publish through third-party or self-operated distribution channels, game players can purchase our virtual currencies and other virtual items through mainstream mobile payment solutions, including Alipay, Apple Pay, Google Pay, Mobile Prepay card, Weixin Pay and QQ Wallet available in and outside of mainland China. We are generally subject to the standard terms and conditions under the payment services agreement and payment channels typically receive 1% to 5% of the gross billings they collect as payment channel service fees.

Post-launch Operations

We provide quality post-launch game operating services to our game players, including ongoing game management, player services and technical support.

Ongoing Game Management

We form designated game operation teams for each of our games. We manage all aspects of game operations for our self-published games. For the games that we publish in collaboration with third-party publishers, we jointly manage game operations with third-party game operators and on a case-by-case basis, third-party publishers are solely responsible for game operations. See “— Our Customers — Third-party Publishers.” We continuously maintain, upgrade and optimize our games during their entire life cycles. We conduct periodical reviews of our games to detect and fix technical issues and release optimized versions following error corrections and technology updates. We monitor and analyze data of our past and existing games by utilizing our proprietary data analytics system. The extensive engagement of our game players provides a considerable volume of game data per day that we use to enhance our games by designing, testing and releasing new features on an ongoing basis. We constantly release new settings, gameplay, content and features, such as holiday themes and customized programs, to meet game player demand and preferences. For example, we rolled out an add-on racing feature for *Dragon Raja* (龍族幻想) to create a new attraction for the game and to increase game player traffic. We also offer other game operating services, such as player community management and server maintenance. See “— Our Customers — Game Players — Our Player Community” and “— Technology and Infrastructure — Server Networks and Cloud Platforms.”

Player Service and Technical Support

We offer our game players a wide range of player services and technical support. Our player service representatives are dedicated to answering queries, resolving technical issues and offering consultation on gameplay and account maintenance. Occasionally, we outsource our player services to third-party service providers, such as local service representatives, who are engaged to tackle language problems in communicating with local game players, and telephone operators, who are engaged to answer and direct calls to our internal representatives.

We also have a game player research team which proactively solicits feedback from game players and collects information from online public forums, such as Baidu Tieba (百度貼吧). We assess the level of game player satisfaction with our games by utilizing our data analytics system and subsequently redesign or optimize our games based on algorithm analysis of game player retention rate and other operating metrics. See “— Technology and Infrastructure — Data Analytics.”

BUSINESS

IP OWNERSHIP, LICENSING AND PROTECTION

We primarily create our own original IP and license IP from third-party IP holders. The table below sets out certain information on the original and licensed IP that we planned to develop, or had developed, into games as of the Latest Practicable Date.

IP Name	IP Genre	IP Source	Game Title	Game Status	License Term	License Territory
1. <i>Loong Craft</i> (六龍爭霸/ 六龍御天)	Mobile Game	Original	<i>Loong Craft</i> (六龍爭霸/六龍御 天)	In Operation	N/A	N/A
2. <i>Love & Sword</i> (御劍情緣)	Mobile Game	Original	<i>Love & Sword</i> (御劍情緣)	In Operation	N/A	N/A
3. <i>The Castle in the Sky</i> (天空紀元)	Mobile Game	Original	<i>The Castle in the Sky</i> (天空紀元)	In Operation	N/A	N/A
4. <i>Power and Honor</i> (權力與 榮耀)	Mobile Game	Original	<i>Power and Honor</i> (權力與榮耀)	In Operation	N/A	N/A
5. <i>Naval Creed</i> (戰艦聯盟)	Mobile Game	Original	<i>Naval Creed</i> (戰艦聯盟)	In Operation	N/A	N/A
6. <i>Eternal Night</i> (迷失之夜)	Mobile Game	Original	<i>Eternal Night</i> (迷失之夜)	Terminated	N/A	N/A
7. <i>Glorious Eleven</i> (足球夢 工廠)	Mobile Game	Original	<i>Glorious Eleven</i> (足球夢工廠)	In Operation	N/A	N/A
8. <i>The Legend of Shushan</i> (蜀山縹緲錄)	Client Game	Original	<i>The Legend of Shushan</i> (蜀山縹緲錄)	Terminated	N/A	N/A
9. <i>The New World</i> (夢想新大陸)	Mobile Game	Original	<i>The New World</i> (夢想新大陸)	In the Pipeline	N/A	N/A
10. <i>Under the Firmament</i> (鴻圖之下)	Mobile Game	Original	<i>Under the Firmament</i> (鴻圖之下)	In the Pipeline	N/A	N/A
11. <i>Noah's Heart</i> (諾亞之心)	Mobile Game	Original	<i>Noah's Heart</i> (諾亞之心)	In the Pipeline	N/A	N/A
12. <i>Legend of Nine Tails Fox</i> (青丘狐傳說)	Movie & TV Series	Licensed	<i>Legend of Nine Tails Fox</i> (青丘狐傳說)	In Operation	November 16, 2015 to the date on which all of the game's versions are terminated in their respective regional markets	Worldwide
13. <i>Zhuxian</i> (誅仙) and <i>Fantasy Zhuxian</i> (夢幻誅仙)	Literature & Client Game	Licensed	<i>Fantasy Zhuxian</i> (夢幻誅仙)	In Operation	August 10, 2015 to the date on which all of the game's versions are terminated in their respective regional markets	Worldwide

BUSINESS

IP Name	IP Genre	IP Source	Game Title	Game Status	License Term	License Territory
14. <i>Aura Kingdom</i> (幻想神域)	Client Game	Licensed	<i>Fantasy Frontier M</i> (幻想神域)	In Operation	January 18, 2017 to the date on which all of the game's versions are terminated in their respective regional markets	Worldwide
15. <i>King of Kings/ World of Kings</i> (萬王之王)	Client Game	Licensed	<i>King of Kings/ World of Kings</i> (萬王之王3D)	In Operation	January 15, 2017 to the date on which all of the game's versions are terminated in their respective regional markets	Worldwide
16. <i>Dragon Raja</i> (龍族)	Literature	Licensed	<i>Dragon Raja</i> (龍族幻想)	In Operation	June 20, 2018 to the date on which all of the game's versions are terminated in their respective regional markets	Worldwide
17. <i>Nirvana in Fire II</i> (琅琊榜：風起長林)	TV Series	Licensed	<i>Nirvana in Fire II</i> (琅琊榜：風起長林)	Terminated	March 20, 2017 to January 24, 2021	Worldwide
18. <i>Sango Heroes</i> (三國群英傳)	Client Game	Licensed	<i>Sango Heroes</i> (三國群英傳)	In the Pipeline	March 1, 2019 to the third anniversary of the launch date	Worldwide
19. IP B ⁽¹⁾	— ⁽¹⁾	Licensed	Project B ⁽¹⁾⁽²⁾	In the Pipeline	— ⁽¹⁾	Worldwide

Notes:

- (1) Pursuant to the IP licensing agreement and business arrangements with the IP holder, the terms of this IP licensing agreement are confidential.
- (2) Game title is pending finalization.

Original IP

A significant portion of our intellectual property is internally created, which facilitates the building of our own franchises and favorably positions us financially and competitively. Development with our original IP is cost-effective without incurring IP licensing fees and promotes our distinctive style to increase player engagement. We had six original IP games among all our existing games as of the Latest Practicable Date, accounting for approximately 54.5% of our existing game portfolio as of the same date. Our successful strategy has been proven in the market and recognized by our key partners. We had entered into exclusive game licensing agreements with Tencent on three of our original IP games in the pipeline as of the Latest Practicable Date.

IP Licensing

We primarily partner with our IP holders under the two business models as follows.

For certain of our games in development, we may source IP from the marketplace to enrich their content, scenes, storylines and characters' attributes. This type of IP licensing happens at the late stage of game development when the game structure and gameplay are almost established. After executing IP

BUSINESS

licensing agreements, IP holders engage in communication with us with respect to the content of the licensed IP during the game development process and participate in marketing and promotion activities after game launch. Our game development team and graphic design team take charge of designing and constructing the entire virtual world in the games, including characters, actions, plots and themes based on the licensed IP. Leveraging our game development capabilities, we are positioned to synergistically help the IP to further maintain and enlarge its fanbase through our games and simultaneously obtain a large amount of user traffic from the IP's fanbase.

We also have strong capabilities to operate and manage licensed IP across a wide array of genres, including literature, movies, TV series and video games. Our partners include some of the leading IP licensors, such as Perfect World, Chinese Entertainment and iQIYI.

We also form productive partnerships with international IP holders to craft flagship games. Leveraging our prominent development capabilities and industry-leading game development talents, we focus on sourcing IP with world-class quality and international recognition from world-renowned IP holders. Our management team assesses the cooperation opportunities with IP holders by taking into account factors such as their synergistic effect, monetization potential and the possibility of expanding our game player scale. Our partners include some of the most prestigious brands in the movie industry. As of the Latest Practicable Date, we had been cooperating with a top-tier global movie production house with an established track record in producing fantasy serials to adapt sequels to its phenomenal epic movie with over USD1.5 billion gross box office earnings into a mobile game. We believe the game will offer game players across the world a sensational gaming experience for epic exploration and captivating immersion.

We enter into licensing arrangements with IP holders to grant us the right to develop, publish and operate IP-based mobile games within certain geographic markets. The IP licensing agreements with our IP licensors typically contain the following salient terms:

- Exclusivity. We are granted the exclusive right to adapt the IP to MMORPGs which would be published and/or distributed within specified geographic markets.
- Term and Renewal. The terms of agreements typically range from three to ten years without renewal.
- Principal Rights and Obligations of Parties Involved. The IP holder is entitled to apply for trademark for the licensed game and the game's content. We are required to adapt the IP into a game in the designated format.
- Payment and Revenue Share. We pay IP holders advance revenue share payments which are credited towards the revenue share payments. The amount of revenue share is typically an amount equivalent to 1% to 12% of a game's gross billings or of the amount we collect from third-party publishers or third-party distribution channels.
- Termination. Either party may terminate the agreement in the event that the other party breaches any provision thereunder or is in bankruptcy or subject to liquidation or dissolution procedures.

IP Protection

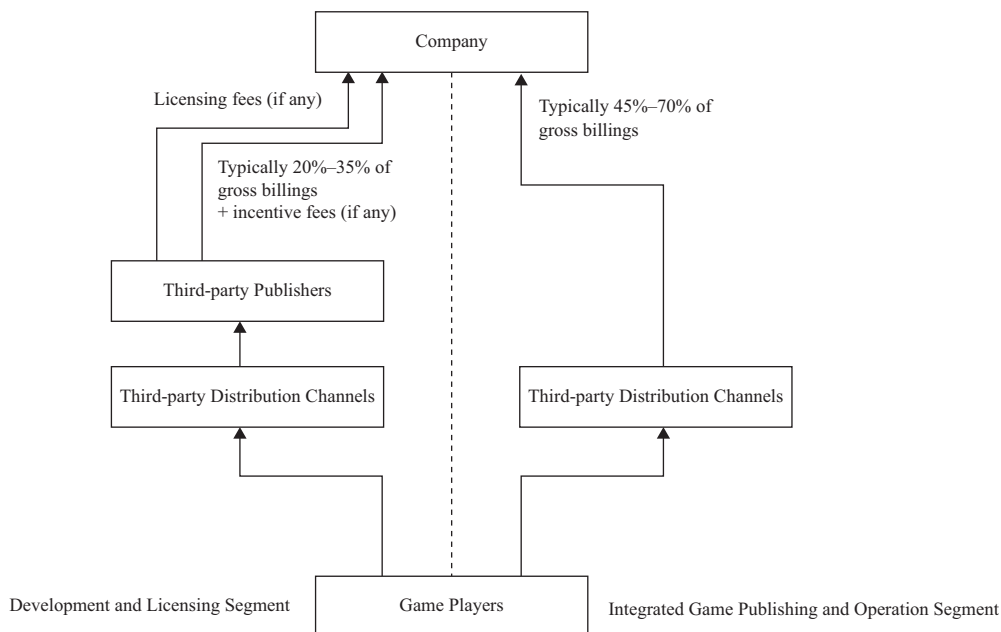
Intellectual property rights are fundamental to our business and we dedicate significant time and resources to their development and protection. We protect our intellectual property rights through a combination of copyright, trademark and other intellectual property laws, as well as confidentiality and licensing agreements with our employees, suppliers, business partners and others. In general, our employees must enter into a standard employment contract which includes a clause acknowledging that all inventions, trade secrets, development and other processes generated by them on our behalf are our property, and assigning to us any ownership rights that they may claim in those works. Despite our precautions, however, third parties may obtain and use intellectual property that we own or license without our consent. During the Track Record Period, there was no breach of our intellectual property rights. However, unauthorized use of our intellectual property by third parties, and the expenses incurred in protecting our intellectual property rights from such unauthorized use, may adversely affect our business and results of operations. See “Risk Factors — Risk Relating to Our Business and Industry — Unauthorized use of our intellectual property may harm our brands and reputation and adversely affect our business.”

Save as disclosed in the prospectus, we did not have any material disputes or other pending legal proceedings regarding intellectual property rights with third parties during the Track Record Period and up to the Latest Practicable Date.

See Appendix IV to this prospectus.

MONETIZATION AND PRICING

The graph below illustrates the typical flow of and our shares in gross billings from our games, which are the total amounts paid by game players for in-game purchases during a given period.



BUSINESS

All of our games adopt the free-to-play model, allowing game players to download and to play games without up-front cost. This model gives game players a reason to return and resume playing month after month and causes the industry to shift into making titles with more depth and longevity. We generate revenue from in-game purchases and add-on content, offering game players a massive collection of in-game virtual items to speed up game progress and confer improved or extra abilities. Game players need to exchange real currency into virtual currency (*Yuan Bao*) generally at a fixed rate of 1:10 and then use *Yuan Bao* to purchase virtual items and services to extend their play sessions, personalize their game environments, accelerate their progress and send virtual gifts to their friends.

We follow the common market practice of pricing each virtual item based on an analysis of game players' income levels and preferences and how they maximize utility in spending income, specifically in consideration of certain benchmarks, including the estimated periodical economic return of the game, the anticipated demand for certain virtual items, the prices of virtual items offered in other comparable games and the consumption habits in local markets. The prices of our virtual items vary slightly across titles and regions. We closely track and monitor the statistics of purchased virtual items in a game through SDKs and data collection systems to understand the consumption patterns of our game players and utilize such analysis as guidance for pricing other games of a similar type. From time to time, we launch seasonal or periodical in-game promotional events, selling certain virtual items at a discount to stimulate consumption.

When we license to third-party publishers, we generally receive revenue share payments and, in some cases, licensing fees from third-party publishers. For revenue share, we typically receive an amount equivalent to 20% to 35% of a game's gross billings. On a case-by-case basis, we may receive a licensing fee which is a fixed amount typically paid by instalment over a period of approximately one year subject to the licensing agreements and/or an advance revenue share payment which is credited towards the revenue share payments by the publishers. Occasionally, some of our third-party publishers may provide incentive fees once the games' gross billings reach certain prescribed amounts. See “— Our Customers — Third-party Publishers.”

We enter into standard developer distribution agreements with third-party distribution channels to directly publish our games through their platforms. See “— Our Business Processes — Game Distribution — Third-party Distribution Channels.” For iOS App Store and Google Play, we receive revenue share payments typically equivalent to 70% of the grossing billings and the remaining amounts go to the distribution partners as operating and service fees. In the case where a game is distributed through any other third-party distribution channel, we typically receive an amount equivalent to 45% to 70% of the game's gross billings, while the distribution channel retains the remaining amount as its commission.

When we publish through self-operated distribution channels, we receive gross billings directly from payment channels after deducting payment channel service fees, typically accounting for 1% of gross billings of the games.

MARKETING AND PROMOTION

We market our games worldwide through a diverse spectrum of advertising and promotional programs, such as online advertising, social media advertising, on-campus publicity campaigns and industry expos. We have a dedicated team which works closely with our publishing and operation team to design and implement marketing and promotional programs catering to the demographics and characteristics of our target groups of game players.

Online Marketing and Promotion

We utilize reliable advertising forms with high traffic conversion, including feeds, online video commercials, loading screen commercials and in-app commercials, and we continuously adapt and upgrade our advertisement form according to the target audience's preferences. Through video and interactive display, we advertise on mainstream media applications and on social networks, such as Facebook, Google, TapTap, TikTok, Toutiao, Kwai, iQIYI, Weixin, QQ Mobile, Tencent Video, Tencent News, Tencent Animation and Comics, Mobile Baidu and Weibo. Our advertisement efficiency is assessed through business intelligent big data technology to ensure content quality and commercial effectiveness.

We apply artificial intelligence and big data analytics to generate valuable player data insights for our business operations. We engaged digital marketing agencies such as Facebook and Google to provide digital marketing solutions on mobile platforms and were able to optimize our selling and marketing expenses based on the analysis and know-how in connection with player action and performance. We typically enter into a framework arrangement with the digital marketing agencies, media and social networks for a specified term, typically one year, under which we are responsible for providing advertising materials, including links to the distribution channels or publishing platforms, while the media and social networks are responsible for displaying our advertising materials in their applications. Such advertising services are generally charged on a cost-per-click basis.

Offline Marketing and Promotion

Through analyzing our game player demographics and behavior data, we carefully select our offline marketing and promotion activities to achieve optimal publicity with commercial efficiency.

We engage celebrities to be our game ambassadors and perform the theme music for our games. We typically select celebrities with an established fanbase which is likely to be converted into our game players. We organize offline gatherings of our game ambassadors and our game players, which often become the center of online publicity and help us to promote the games and draw in new game players.

We cooperate with offline businesses that our potential game players frequent and conduct on-campus publicity campaigns. Through such methods, we penetrate the everyday life of our potential game player base and achieve maximum exposure.

We also cooperate with well-known fashion designer brands. Such cooperation is designed on a case-by-case basis, taking into account factors such as the images and consumer demographics of the brand and the positioning of our games. For example, we may selectively send out promotional flyers and exclusive in-game gifts to brand consumers with higher purchasing records in order to attract potential game players.

BUSINESS

We participated in various industry expos and conferences to promote our games. We participated in the ChinaJoy of 2017 and 2018. In May 2018, we participated in the first China Game Festival. In 2019, we were invited by Epic Games to present *Dragon Raja* (龍族幻想) at Game Developers Conference and participated in the second China ACG Conference and Industry Expo.

OUR CUSTOMERS

Our customers are, typically, third-party publishers from our development and licensing business and game players from our integrated game publishing and operation business.

Third-party Publishers

For the development and licensing business, our customers are third-party publishers such as Tencent and Zlongame, who are licensees of our in-house developed games. We generally enter into exclusive licensing agreements with third-party publishers. The agreements with our third-party publishers typically contain the following salient terms:

- **Exclusivity.** Third-party publishers are granted the exclusive, non-sublicensable and non-transferable right to distribute, publish and sell our games within specified geographical markets.
- **Term and Renewal.** The terms of agreements are typically three years and the agreements are automatically renewed upon meeting certain conditions, such as that the average monthly gross billings for the last two or three months before the expiration of the agreement reach certain amounts.
- **Principal Rights and Obligations of Parties Involved.** On a case-by-case basis, third-party publishers are in charge of game operations, rendering operating systems, game servers, user interfaces as well as system maintenance and customer services, whereas we are responsible for delivering game content as specified in the agreement and rendering software technical support services. We are required to amend, update and modify the games in a timely fashion upon third-party publishers' requests.
- **Payment and Gross Billing Sharing.** We receive revenue share payments from third-party publishers, typically an amount equivalent to 20% to 35% of the game's gross billings or an amount equivalent to 30% to 50% of the amount equal to the game's gross billings deducting certain costs and expenses such as commissions paid to distribution channels. Such amount received would be typically equivalent to 20% to 35% of the game's gross billings. On a case-by-case basis, we may receive a licensing fee which is a fixed amount typically paid by instalment over a period of approximately one year under the licensing agreement and an advance revenue share payment which is credited towards the revenue share payments by the publishers. Occasionally, some of our third-party publishers may provide incentive fees once the games' gross billings reach certain prescribed amounts.
- **Termination.** Either party may terminate the agreement in the event that the other party breaches any provision thereunder or is in bankruptcy or subject to liquidation or dissolution procedures.

Game Players

For the integrated game publishing and operation segment, our customers are game players. See “— Our Business Segments — Integrated Game Publishing and Operation.” By creating a group of highly recognizable brands to match the broad game player demographics, we serve game players ranging from teenagers to elderly people and game enthusiasts to casual game players. We see benefit in the form of a larger game player base and higher game player retention. We design our games to provide a depth of content that keeps game players engaged for a long period of time following launch and create additional growth opportunities for our franchises. With our brand and scale resulting in a network effect, we are able to make significant investments that will grow our community of game players, their engagement and our monetization over time.

We enter into standard game service agreements with game players for games we publish through distribution channels, which typically contain the following salient terms:

- **Principal Rights and Obligations of Parties Involved.** Game players are able to make in-game purchases and are responsible for any liability arising from any action carried out under their game accounts. We have the right to retain or delete data on our game servers, to verify the game players’ identities and to take measures to secure game players’ accounts. We are required to duly deliver the games and render services to game players.
- **Payment.** We charge for in-game purchases and are obliged to provide clear prompts regarding in-game purchases on relevant pages containing in-game virtual items in the games. Game players are not allowed to proceed to use the relevant virtual items or services without making payments.
- **Termination and Account Bans.** Generally, the agreement can be terminated by either party and we may terminate the agreement without being held liable to any game player or third party. We have the right to ban a game player’s account, to terminate all or partial services rendered to a game player and to cancel or withdraw any benefit obtained by a game player who violates the rules as stipulated in the agreement.

Our Player Community

We nurture a game player community with a vibrant and encouraging community culture on various social network and media platforms, including Weixin official account, QQ group and Baidu Tieba. We have set up and managed separate Weixin official accounts for all of our existing games, generating news feeds including game updates, walkthroughs, in-game activities and promotions to maintain game players’ continuous engagement. QQ group and Baidu Tieba provide the platforms for real-time and bulletin board communications. The interactions via QQ group and Baidu Tieba strengthen our player community by acting as a game player engagement tool and help collect game players’ comments and feedback, enabling us to formulate a practicable plan to improve the quality and diversify gameplay of our games. Because of our large community and the social nature of our games, our game players are more likely to connect with others and to encourage their friends to join them in our games.

BUSINESS

Protection of Minors

To comply with the Notice on Preventing Minors from Indulging in Online Games and in order to ensure a healthy environment for our game players, we have designed and implemented procedures in our games to discourage those of our game players who are minors from playing more than three hours per day during statutory holidays and from more than 1.5 hours per day at other times. See “Regulatory Overview — Anti-addiction System and Minor Protection.”

Our Top Five Customers

All of our five largest customers in 2017, 2018 and 2019 were third-party publishers. For 2017, 2018 and 2019, revenue from our five largest customers amounted to RMB858.1 million, RMB572.1 million and RMB810.0 million, respectively, accounting for 65.5%, 65.8% and 75.9%, respectively, of our total revenue for the same periods. For risks relating to our major customers, see “Risk Factors — Risks Relating to Our Business and Industry — We work with third parties to publish, distribute or operate certain of our games and any loss or deterioration of our relationships may result in loss of game players and revenues.” The following table sets out certain information of our five largest customers in 2017, 2018 and 2019.

Customer	Revenue	Percentage of Revenue Attributable to Total Revenue	Principal Business	Services Rendered by Us	Length of Business Relationship	Credit Term
	<i>in millions of RMB</i>	<i>(%)</i>				
<i>Year ended December 31, 2019</i>						
Tencent	586.5	55.0	The customer provides internet services and mainly offers online communication, entertainment, and advertising services. It also offers other internet value-added services.	Game development and licensing	Over four years	90–150 days
Efun	98.2	9.2	The customer is a mobile game publisher with overseas operations.	Game development and licensing	Over four years	90–150 days
SZN Interaction Entertainment Holding Limited	59.9	5.6	The customer is a mobile game operating company to publish, promote, and distribute the licensed games.	Game development and licensing	Over two years	90–150 days
Zlongame	57.2	5.4	The customer is a gaming company that develops and publishes mobile games. It also offers entertainment services and technical services.	Game development and licensing	Over four years	90–150 days
Game Dreamer (HK) Limited (晶綺科技(香港)股份有限公司)	8.2	0.7	The customer provides Internet services.	Game development and licensing	Over three years	90–150 days
Total	810.0	75.9				

BUSINESS

Customer	Revenue	Percentage of Revenue Attributable to Total Revenue	Principal Business	Services Rendered by Us	Length of Business Relationship	Credit Term
	<i>in millions of RMB</i>	<i>(%)</i>				
Year ended December 31, 2018						
Tencent	354.7	40.8	The customer provides internet services and mainly offers online communication, entertainment, and advertising services. It also offers other internet value-added services.	Game development and licensing	Over four years	90–150 days
Efun	82.4	9.5	The customer is a mobile game publisher with overseas operations.	Game development and licensing	Over four years	90–150 days
Zlongame	66.1	7.6	The customer is a gaming company that develops and publishes mobile games. It also offers entertainment services and technical services.	Game development and licensing	Over four years	90–150 days
SZN Interaction Entertainment Holding Limited	53.5	6.1	The customer is a mobile game operating company to publish, promote, and distribute the licensed games.	Game development and licensing	Over two years	90–150 days
G-MEI	15.4	1.8	The customer is a mobile game operating company to publish, promote, and distribute the licensed games.	Game development and licensing	Over four years	90–150 days
Total	<u>572.1</u>	<u>65.8</u>				
Year ended December 31, 2017						
Tencent	518.5	39.6	The customer provides internet services and mainly offers online communication, entertainment, and advertising services. It also offers other internet value-added services.	Game development and licensing	Over four years	90–150 days
Zlongame	167.7	12.8	The customer is a gaming company that develops and publishes mobile games. It also offers entertainment services and technical services.	Game development and licensing	Over four years	90–150 days
Efun	91.8	7.0	The customer is a mobile game publisher with overseas operations.	Game development and licensing	Over four years	90–150 days
G-MEI	46.6	3.6	The customer is a mobile game operating company that publishes, promotes and distributes the licensed games.	Game development and licensing	Over four years	90–150 days
Evatar (HK) Limited (伊凡達科技(香港)股份有限公司)	33.5	2.5	The customer provides game publishing services.	Game development and licensing	Over three years	90–150 days
Total	<u>858.1</u>	<u>65.5</u>				

Tencent, one of our five largest customers for each of the years 2017, 2018 and 2019, indirectly held 17.51% of the issued share capital of our Company as of the Latest Practicable Date. Except for Tencent, all of the other largest customers for each of the years 2017, 2018 and 2019 were Independent Third Parties, and none of our Directors, their close associates or any Shareholders which, to the knowledge of our Directors, owns more than 5% of the issued share capital of our Company has any interest in any of the abovementioned customers.

BUSINESS

We deal with all of customers at arm's length. For example, we negotiate and arrange revenue sharing and settlement periods based solely on commercial considerations, without taking into account their affiliation or other relationships with us. The transaction terms with customers who hold the issued share capital of our Company are comparable to those with Independent Third-Party customers.

TECHNOLOGY AND INFRASTRUCTURE

We have invested extensively in developing proprietary technology and sourcing emerging technology to support the growth of our business. As one of our competitive advantages, our proprietary data analytics system enhances our ability to create high-quality titles. We continue to innovate and optimize our network infrastructure to cost-effectively ensure high performance and high availability of our games.

Game Engines

We have used third-party game engines with the latest technology to power our games. During the Track Record Period and up to the Latest Practicable Date, we used the Unity 3D to power 11 games and Unreal Engine 4 to power one game. As we excelled at using Unreal Engine 4, we were invited by Epic Games to present *Dragon Raja* (龍族幻想), the game powered by Unreal Engine 4, at the Game Developers Conference in 2019 and are subsequently applying the engine to more games of different genres. Relying on these game engines' powerful and stable systems to process sophisticated calculations, we are able to generate photorealistic 3D visualization and physics simulations with great ease. For instance, the visual scripting system of Unreal Engine 4 includes live debugging and expedites development of game logic without using C++ language, resulting in reduced iteration time and less division between technical artists, designers, and programmers. The state-of-the-art game engines enable our development team to deliver cutting-edge content and interactive experience to game players.

Server Networks and Cloud Platforms

We have used cloud computing as our infrastructure for external operations since 2015. We have established our proprietary cloud-based server architecture for games we published through distribution channels. Seamlessly compatible with advanced game engines, such as Unity and Unreal, it enables high-level customization and secondary development to support the development of AAA titles across a range of genres. Our core technology indicators, including parallel processing capability, response time and system stability, enable us to deliver games to millions of game players simultaneously with considerable performance and reliability.

Data Analytics

We have built a business intelligence big data analytics system to provide a visualized representation of game player behavior and analytics to our game development and operation and maintenance teams. We analyze game player engagement data and demographics over parameters such as conversion, activity level, in-game purchase and retention, on dimensions such as publishing and distribution channels, regions and servers. We also collect in-game data of promotional activities, new dungeon rollouts, quests and game economics, and perform multi-dimensional trajectory analysis. Through these data, we gain valuable insights into game player behavior to improve our games and our game player experience and stimulate in-game purchases, which in turn enhance game player retention and game life cycle value. In addition, our business intelligence big data analytics system also monitors important system outputs to spot any potential bugs in a timely fashion.

SDK

We have invested extensively in developing proprietary technology to support the growth of our business and developed our own SDKs supporting both iOS and Android systems. Our SDKs provide our games with a one-stop solution for account-related and payment functions.

Through our SDKs, game players can log into our games with accounts such as Weixin, QQ, Weibo, Facebook, Google Play and Line. In addition, our SDKs facilitate in-game payments through third-party payment channels such as Apple Pay, Google Pay, AliPay, Mobile Prepay card, Weixin Pay and QQ Wallet.

In addition, our SDKs feature a built-in reporting system to control various risks, including violation of gaming policy, which helps ensure gaming experience and payment safety.

Operation and Maintenance Team

As of the Latest Practicable Date, we had an operation and maintenance team of 26 employees dedicated to providing technical support and maintenance. The team is responsible for providing technology services to our staff members, third-party publishers and game players, for maintaining servers and internal systems, and for developing and operating our SDK module and our big data system. During the development stage of our games, our operation and maintenance team advises the game project groups on server requirements, database parameters and network configuration based on its estimation of the average and the peak numbers of game players concurrently online. The operation and maintenance team conducts pre-launch evaluations of server carrying capacity to ensure the smooth operation of the games. After game launches, the operation and maintenance management system monitors our game servers and reports any malfunctions to our operation and maintenance team in a timely fashion.

OUR SUPPLIERS

Our suppliers primarily comprise third-party distribution channels from our integrated game publishing and operation business, IP holders and marketing service providers. We cooperate with major distribution channels such as iOS App Store and Google Play, to publish our games. See “— Our Business Processes — Game Distribution — Self-operated Distribution Channels.” We license IP from third-party IP holders to adapt into mobile games. See “— IP Ownership, Licensing and Protection — IP Licensing.” We engage marketing services providers to advertise and promote our games. See “— Marketing and Promotion.” For 2017, 2018 and 2019, purchases from our five largest suppliers amounted to RMB222.9 million, RMB110.8 million and RMB164.7 million, respectively, accounting for 42.8%, 37.0% and 50.2%, respectively, of our total purchase amount for the same periods. For risks relating to our major suppliers, see “Risk Factors — Risks Relating to Our Business and Industry — We work with third parties to publish, distribute or operate certain of our games and any loss or deterioration of our relationships may result in loss of game players and revenues” and “Risk Factors — Risks Relating to Our Business and Industry — Any restriction on access to major distribution channels, such as iOS App Store Google Play, or the internet, could lead to a loss or slower the growth of our game player base.”

BUSINESS

The following table sets forth certain information of our five largest suppliers in 2017, 2018 and 2019.

Supplier	Purchase Amount	Percentage of Total Transaction Amount	Principal Business	Services Rendered to Us	Length of Business Relationship	Credit Term
	<i>in millions of RMB</i>	<i>(%)</i>				
<i>Year ended December 31, 2019</i>						
Madhouse Co. Limited	53.9	16.4	The supplier is a mobile advertising company.	Marketing and promotion	Over two and a half years	0–180 days
Shanghai Yangzhi Film Studio (上海楊治影視文化工作室)	38.6	11.8	The supplier provides film, television, cultural and art activity planning, stage design, literature, marketing and exhibition services.	IP licensing	Over one and a half years	0–180 days
Alphabet, Inc.	26.5	8.1	The supplier, through its subsidiaries, provides web-based search, advertisements, maps, software applications, mobile operating systems, consumer content, enterprise solutions, commerce, and hardware products.	Game distribution	Over four years	0–180 days
Apple Inc.	26.1	7.9	The supplier designs, manufactures, and markets personal computers and related personal computing and mobile communication devices along with a variety of related software, services, peripherals, and networking solutions.	Game distribution	Over four years	0–180 days
Perfect World Group	19.6	6.0	The supplier develops, produces, and markets TV shows and movies. It also participates in other media related business sections.	IP licensing, marketing and graphic design services	Over four years	181–365 days
Total	<u>164.7</u>	<u>50.2</u>				

BUSINESS

Supplier	Purchase Amount	Percentage of Total Transaction Amount	Principal Business	Services Rendered to Us	Length of Business Relationship	Credit Term
	<i>in millions of RMB</i>	<i>(%)</i>				
Year ended December 31, 2018						
Perfect World Group	39.8	13.3	The supplier develops, produces, and markets TV shows and movies. It also participates in other media related business sections.	IP licensing, marketing and graphic design services	Over four years	181–365 days
Apple Inc.	19.3	6.4	The supplier designs, manufactures, and markets personal computers and related personal computing and mobile communication devices along with a variety of related software, services, peripherals, and networking solutions.	Game distribution	Over four years	0–180 days
Dongguan Xunyi Electronic Technology Co., Ltd. (東莞市訊怡電子科技有限公司)	18.9	6.3	The supplier is a third-party distribution channel.	Game distribution	Over four years	0–180 days
Guangdong Tianchen Network Technology Co., Ltd. (廣東天宸網絡科技有限公司)	16.9	5.7	The supplier is a third-party distribution channel.	Game distribution	Over four years	0–180 days
HUAWEI Software Technology Co., Ltd. (華為軟件技術有限公司)	15.9	5.3	The supplier is a third-party distribution channel.	Game distribution	Over four years	0–180 days
Total	<u>110.8</u>	<u>37.0</u>				
Year ended December 31, 2017						
Perfect World Group	103.7	19.9	The supplier develops, produces, and markets TV shows and movies. It also participates in other media related business sections.	IP Licensing, marketing and graphic design services	Over four years	181–365 days
Apple Inc.	48.6	9.3	The supplier designs, manufactures, and markets personal computers and related personal computing and mobile communication devices along with a variety of related software, services, peripherals, and networking solutions.	Game distribution	Over four years	0–180 days
Dongguan Xunyi Electronic Technology Co., Ltd. (東莞市訊怡電子科技有限公司)	27.4	5.3	The supplier is a third-party distribution channel.	Game distribution	Over four years	0–180 days
Guangdong Tianchen Network Technology Co., Ltd. (廣東天宸網絡科技有限公司)	22.3	4.3	The supplier is a third-party distribution channel.	Game distribution	Over four years	0–180 days
Shangrao Zhifeiyixun Technology Co., Ltd. (上饒市智飛翼訊科技有限公司)	20.9	4.0	The supplier designs, creates and distributes advertisements.	Marketing and promotion	Four months	0–180 days
Total	<u>222.9</u>	<u>42.8</u>				

BUSINESS

The Perfect World Group was one of our five largest suppliers for each of the years 2017, 2018 and 2019 and one of its group members, Perfect World, indirectly held 23.10% of the issued share capital of our Company as of the Latest Practicable Date. Except for the Perfect World Group, all of the other largest suppliers for each of the years 2017, 2018 and 2019 were Independent Third Parties, and none of our Directors, their close associates or any Shareholders who, to the knowledge of our Directors, owns more than 5% of the issued share capital of our Company has any interest in any of the abovementioned suppliers.

We deal with all of suppliers at arm's length. The transaction terms with the suppliers who hold the issued share capital of our Company are comparable to those with Independent Third-Party suppliers.

OVERLAPPING OF MAJOR SUPPLIERS AND CUSTOMERS

During the Track Record Period, one of our major customers, Tencent, was also our supplier and one of our major suppliers, the Perfect World Group, was also our customer. Tencent and the Perfect World Group cover a wide range of businesses along the industry value chain, including game publishing and game distribution. According to Frost & Sullivan, it is an industry norm for game developers to have companies such as Tencent and the Perfect World Group as customers and suppliers at the same time.

Tencent was one of our five largest customers and one of our suppliers for each of the years 2017, 2018 and 2019. During the Track Record Period, we procured various services from Tencent, including, but not limited to, game publishing, game distribution, advertising and promotion and cloud services; and we also rendered various services to Tencent, including game development and technical support.

The Perfect World Group was one of our five largest suppliers and one of our customers for each of the years 2017, 2018 and 2019. During the Track Record Period, we rendered various services to the Perfect World Group, including game development and technical support; and we also procured various services from the Perfect World Group, including, but not limited to, game publishing and distribution, IP licensing, development outsourcing and advertising and promotion.

The revenue, cost and expenses in relation to Tencent and the Perfect World Group during the Track Record Period are set out below.

	Year ended December 31,					
	2017		2018		2019	
	<i>RMB million</i>	<i>% of our total revenue</i>	<i>RMB million</i>	<i>% of our total revenue</i>	<i>RMB million</i>	<i>% of our total revenue</i>
Revenue from Tencent and the Perfect World Group . . .	538.7	41.1	358.8	41.2	586.5	55.0
Revenue from Tencent ⁽¹⁾	518.5	39.6	354.7	40.8	586.5	55.0
Revenue from the Perfect World Group ⁽²⁾	20.2	1.5	4.1	0.4	0.0	0.0

BUSINESS

Notes:

- (1) Revenue from Tencent is primarily derived from the exclusive publishing and operation of our games by Tencent. See “Connected Transactions — 6. Exclusive Publishing and Operation of Games by Tencent” for details of materials terms and pricing policy of such transactions.
- (2) Revenue from the Perfect World Group primarily comprises (i) service fees in relation to technical support for *Forsaken World* (神魔大陸); and (ii) revenue share from *The Legend of Shushan* (蜀山縹緲錄), a client game published and operated by the Perfect World Group.

	Year ended December 31,					
	2017		2018		2019	
	<i>RMB million</i>	<i>% of our total cost of revenue</i>	<i>RMB million</i>	<i>% of our total cost of revenue</i>	<i>RMB million</i>	<i>% of our total cost of revenue</i>
Cost incurred in relation to Tencent and the Perfect World Group⁽³⁾	106.1	38.8	46.0	26.5	24.2	13.6
Cost incurred in relation to Tencent ⁽³⁾⁽⁴⁾	18.9	6.9	11.7	6.7	4.6	2.6
Cost incurred in relation to the Perfect World Group ⁽³⁾⁽⁵⁾	87.2	31.9	34.3	19.8	19.6	11.0

Notes:

- (3) Cost incurred in relation to Tencent and/or the Perfect World Group refers to the cost attributable to Tencent and/or Perfect World in connection with procuring services from either or both of them.
- (4) Cost incurred in relation to Tencent primarily comprises the service fees for cloud services and the commissions charged by Tencent for distributing certain games on its platforms. See “Connected Transactions — 4. Cloud Services of Tencent” and “— 5. Publishing of Games on Tencent Platforms” for details of materials terms and pricing policy of such transactions.
- (5) Cost incurred in relation to the Perfect World Group primarily comprises the fixed licensing fees and revenue share paid to the Perfect World Group. See “Connected Transactions — 2. Game Cooperation with Perfect World Group” for details of materials terms and pricing policy of such transactions.

BUSINESS

	Year ended December 31,					
	2017		2018		2019	
	<i>RMB million</i>	<i>% of our total selling and marketing expenses</i>	<i>RMB million</i>	<i>% of our total selling and marketing expenses</i>	<i>RMB million</i>	<i>% of our total selling and marketing expenses</i>
Selling and marketing expenses in relation to Tencent and the Perfect World Group	0.9	0.4	1.4	1.5	1.4	1.2
Selling and marketing expenses in relation to Tencent ⁽⁶⁾	0.6	0.3	—	—	1.4	1.2
Selling and marketing expenses in relation to the Perfect World Group ⁽⁷⁾	0.3	0.1	1.4	1.5	—	—

Notes:

- (6) Selling and marketing expenses in relation to Tencent primarily comprise the payments for game-related promotion and advertising services provided by Tencent. See “Connected Transactions — 1. Tencent Promotion and Advertising Services.”
- (7) Selling and marketing expenses in relation to the Perfect World Group primarily comprise the payments for embedded marketing in a web series produced by the Perfect World Group.

	Year ended December 31,					
	2017		2018		2019	
	<i>RMB million</i>	<i>% of our total research and development expenses</i>	<i>RMB million</i>	<i>% of our total research and development expenses</i>	<i>RMB million</i>	<i>% of our total research and development expenses</i>
Research and development expenses in relation to Tencent and the Perfect World Group	16.2	3.6	4.1	1.3	—	—
Research and development expenses in relation to Tencent	—	—	—	—	—	—
Research and development expenses in relation to the Perfect World Group ⁽⁸⁾	16.2	3.6	4.1	1.3	—	—

Note:

- (8) Research and development expenses in relation to the Perfect World Group mainly comprise the fees paid for graphic design services. See “Connected Transactions — 3. Perfect World Graphic Design Services” for details of materials terms and pricing policy of such transactions.

BUSINESS

In respect of the transactions with Tencent and the Perfect World Group that took place during the Track Record Period which would constitute continuing connected transactions under Chapter 14A of the Listing Rules as disclosed in Connected Transactions section in this prospectus, our Directors are of the view that these transactions have been and will be entered into in the ordinary and usual course of our Group's business and are based on normal commercial terms or better that are fair, reasonable and in the interests of our Group and our Shareholders as a whole. For details please see "Connected Transactions."

In respect of the transactions with Tencent and the Perfect World Group that took place during the Track Record Period which would not constitute continuing connected transactions under Chapter 14A of the Listing Rules as disclosed in Connected Transactions section in this prospectus, our Directors are of the view that these transactions are (i) entered into after due consideration taking into account the prevailing purchase and selling prices at the relevant time, (ii) conducted in the ordinary course of business on an arm's length basis, and (iii) at prices that were comparable to those of the other suppliers/customers of the Group, if applicable, during the Track Record Period.

COMPETITION

China's mobile game industry is evolving rapidly and is highly competitive, as manifested by its frequent introduction of new products and services, limited product life cycles, rapid introduction of new technological and equipment advancements, evolving industry standards and constantly changing game player demand and preferences. We compete primarily with other mobile game developers, publishers and operators in mainland China and our major markets outside of mainland China. We compete primarily on the basis of a number of factors, including game portfolio, development capabilities, utilization of advanced technology, ability to prolong the life cycle of games, game player base and engagement, relationships with major publishers and the ability to source international intellectual property. We believe we compete favorably on these factors. However, other mobile game companies could have greater financial, technological and marketing resources, publish more quality games to compete with our offerings and adversely affect our ability to attract and retain users and engage their leisure time. These competitors, including companies of which we may not be currently aware, may take advantage of social networks, access to a large user base and network effects to grow rapidly and virally.

BUSINESS

EMPLOYEES

As of the Latest Practicable Date, we had 998 full-time employees, all of whom were based in China, primarily at our headquarters in Beijing, with the remainder in Chengdu and Changchun in China. The following table sets forth a breakdown of our employees by business function as of the Latest Practicable Date.

Function	As of the Latest Practicable Date	
	Number	% of Total
Research and Development Center	871	87.3
Project Development Center	222	22.2
Engine Center	19	1.9
Program Center	184	18.4
Graphic Design Center	362	36.3
Animation Center	33	3.3
Testing Center	51	5.1
Publishing and Operation Center	65	6.5
Administration	62	6.2
Total	998	100.0

Our unique company culture serves as the foundation of our success and helps us attract, grow and retain talent. We are committed to creating a collegial corporate environment and providing our game designers, product managers and engineers with the tools and infrastructure to innovate, as well as with opportunities to immediately impact and engage with a large community of players. In turn we are able to build up our talent pool by attracting professionals and elites specialized in game development, publishing and operations. As of the Latest Practicable Date, we had a research and development center with 871 employees, 236 of whom each had over ten years' experience in game development. As of the Latest Practicable Date, approximately 45.3% of our employees in the program center and the engine center had postgraduate degrees.

We are committed to establishing a competitive and fair remuneration and benefits system. To effectively motivate our business development team through remuneration incentives and ensure that our employees receive competitive remuneration packages, we continually refine our remuneration and incentive policies through market research and comparisons with our competitors. We conduct performance evaluations of our employees quarterly to provide feedback on their performance. Remuneration for our employees typically consists of a base salary and performance-based and year-end bonuses.

As required by PRC laws and regulations, we participate in various employee social security plans for our employees that are administered by local governments, including housing provident fund, pension insurance, medical insurance, maternity insurance, work-related injury insurance and unemployment insurance.

We pay great attention to our employees' welfare and continually improve our welfare system. We offer employees additional benefits such as annual leave, supplementary medical insurance, health examinations and medical insurance for family members, among other things.

BUSINESS

We provide regular and specialized training tailored to the needs of our employees in different departments. We regularly organize training sessions conducted by senior employees or external consultants, covering various aspects of our business operations, including overall management, project execution and technical know-how. We constantly review the content of training and follow up with employees to evaluate the effect of such training. Through the training, we help our employees to stay up to date with both industry development, skills and technologies. We also organize workshops, from time to time, to discuss specific topics.

During the Track Record Period, we had not engaged any dispatched labor agency to obtain services in relation to our business operations domestically or overseas. During the same period, we did not have any strikes, protests or other material labor conflicts that may materially affect our business and reputation. As of the Latest Practicable Date, we had not established any labor union.

INSURANCE

In line with general market practices, we do not maintain any business interruption insurance or product liability insurance, which is not mandatory under PRC laws. We do not maintain key man life insurance, insurance policies covering damage to our network infrastructure or information technology systems. We also do not maintain insurance policies against risks relating to Contractual Arrangements.

During the Track Record Period, we did not make any material insurance claims in relation to our business. See “Risk Factors — Risk Relating to Our Business and Industry — We have limited insurance coverage which could expose us to significant costs and business disruption.”

HEALTH, SAFETY AND ENVIRONMENTAL MATTERS

We are not subject to significant health, safety or environmental risks. During the Track Record Period and up to the Latest Practicable Date, we had not been subject to any fines or other penalties due to non-compliance with health, safety or environmental regulations.

PROPERTIES

Our corporate headquarters is located at 4 Floor, Hangxingyuan No. 8, Hepingli East Street No. 11, Dongcheng District, Beijing, China. As of the Latest Practicable Date, we did not own any real properties. As of the Latest Practicable Date, we leased nine properties under lease agreements in China, with an aggregate gross floor area of approximately 11,000 square meters. Our leased properties in China are primarily used for business and office purposes. The relevant lease agreements have lease expiration dates ranging from August 14, 2020 to August 14, 2025. The lessors of our leased properties above have obtained the relevant building ownership certificates or authorization from building owners. Among such nine properties that we leased, we had not completed rental registration for eight leased properties as of the Latest Practicable Date. Our PRC Legal Adviser has advised us that the lack of registration of the lease agreements will not affect the validity of the lease agreements under PRC law, and a maximum penalty of RMB10,000 may be imposed for non-registration of each lease according to the Administrative Measures on Leasing of Commodity Housing (商品房屋租賃管理辦法). See “Risk Factors — Risks Relating to Our Business and Industry — Our leasehold interest may be defective and our legal right to lease certain properties may be challenged, which could cause disruption to our business.”

RISK MANAGEMENT AND INTERNAL CONTROL

Financial Reporting Risk Management

We have in place a set of accounting policies in connection with our financial reporting risk management, such as financial report management policies, budget management policies and financial statements preparation policies. We have various procedures in place to implement accounting policies, and our finance department reviews our management accounts based on such procedures. We also provide regular training to our finance department staff to ensure that they understand our accounting policies.

As of the Latest Practicable Date, our finance department consisted of 18 employees. It is headed by Mr. Li Yi, our chief financial officer, who has 20 years of experience in audit, tax advisory and financial management.

Investment Risk Management

Our investment strategy is (i) to invest in, or acquire, upstream and downstream businesses along the industry value chain that are complementary to our business and facilitate the expansion of our service offerings, and (ii) to invest in investment funds focusing on pan-entertainment or technology, media, and telecom industries that would strengthen our collaborations with upstream and downstream companies. Each investment project, either the acquisition of or investment in a company or an investment in an investment fund, is evaluated based on a number of factors, including the target's competitive strengths, expertise of management teams, expected return and risks involved.

Our investment team consists of our senior management and other employees with relevant experience. The team is primarily responsible for (i) identifying and assessing potential investment targets, (ii) executing investment transactions, (iii) preparing periodical analysis of our portfolio, (iv) reporting any red flags of material operational, financial, or other investment risk, (v) conducting post-investment evaluation, and (vi) monitoring the performance of our portfolio companies and investment funds in which we have committed capital, and managing our portfolio companies and adjusting our investment portfolio. In addition, we may engage financial advisers to provide advisory services in relation to investment opportunities and decisions.

Our process for investments in companies and funds comprises (i) sourcing and screening, (ii) project assessment, (iii) project initiation, (iv) pre-investment evaluation and verification, (v) investment decision-making and execution, (vi) post-investment management and (vii) post-investment evaluation. A project manager is assigned for each investment project to manage and coordinate each step along the investment process.

We have established a set of investment policies and internal control measures for investments in companies and funds in order to achieve target returns on our investments while maintaining proper internal governance.

BUSINESS

Our investment policies for investments in companies and funds set out, among others, the following requirements:

- (i) the scale of investments, individually or in the aggregate, shall be suitable to our scale of operation, leverage ratio and financing capability;
- (ii) the project manager shall, for each project, prepare an investment proposal or a feasibility study report and submit it to senior management, and may engage professional advisory institutions to prepare such proposal or report, as appropriate and necessary;
- (iii) investment projects shall be reviewed and assessed on an ongoing basis after initiation. The project manager shall prepare a quarterly analysis of the portfolio company or the investment fund with respect to its business and operations as well as its respective market and industry. Employees from our finance department shall also prepare a financial analysis of the portfolio companies and the investment funds based on their periodical financial statements. The proposed projects and the methods involved in conducting such projects shall also be assessed to ensure compliance with applicable laws and regulations; and
- (iv) the investment team shall actively monitor our portfolio, take proactive management measures, if needed, for our portfolio companies, and review the results of our investment in funds on a regular basis.

We have additional requirements for investments in investment funds relating to management and risk. The investment team shall review the investment funds' public letters, portfolios and other relevant documents available to investors, report to our senior management on a regular basis and timely adjust the investment portfolio.

We may, from time to time, invest in wealth management products which are suitable for our business needs. Our dedicated managers are in charge of purchasing, monitoring and adjusting our wealth management products, evaluating the associated risk and our liquidity, preparing analyses and reporting to the management team periodically. They put forward plans that include the portfolio to be purchased and the associated risk in respect of the return, the term of the products and the analysis of our overall liquidity. We are able to use our cash on hand to purchase wealth management products, provided that such purchase would not interfere with our business operation. We utilize our established risk control system to ensure timely response when any potential risk is identified. We are very selective in choosing wealth management products that actively control our risk. In principle, such wealth management products should have a risk rating no higher than middle-low at the time of purchase. The resulting management plan is then submitted to our senior financial management personnel for approval. Our managers monitor our wealth management portfolio and if there is any red flag on any of the foregoing aspects, such managers must immediately report to the managers in charge of purchasing, monitoring and adjusting our wealth management products. When we require cash and need to sell such products before maturity, we shall apply for such early sell to the manager in charge.

We have established a clear reporting procedure to support effective and resilient risk management. Investment opportunities of different scales and significance would be reported and approved by appropriate responsible persons or corporate institutions subject to our internal policies and the applicable laws and regulations, including the Listing Rules. The chairman of the Board has the authority to approve, or delegate the chief executive officer or any agent on his or her behalf to approve,

BUSINESS

investment plans in an aggregate amount of no more than RMB100.0 million or 25% of the amount of our Group's latest audited total assets. The plan would be moved to the Board meeting for approval if the aggregate amount of the prospective investment exceeds RMB100.0 million and 25% of the amount of our Group's latest audited total assets. In addition, if the Board, the chairman of the Board or the chief executive officer deems an investment is likely to expose any or all members of our Group to substantial risks, such institution or person may submit the proposal associated with such investment to the Board for review and approval.

Information Risk Management and Data Protection

Sufficient maintenance, storage and protection of user data and other related information is critical to our success. We have implemented relevant internal procedures and controls to ensure that user data is protected and that leakage and loss of such data is avoided. During the Track Record Period and up to the Latest Practicable Date, we did not experience any material information leakage or loss of user data.

As of the Latest Practicable Date, our operation and maintenance team consisted of 26 employees. It is responsible for ensuring that the usage, maintenance and protection of user data are in compliance with our internal rules and the applicable laws and regulations, including COPPA and GDPR. The head of our operation and maintenance center has over 16 years of experience in the area. We provide regular training to our information technology team and discuss any issues and necessary updates.

Legal Compliance and Intellectual Property Rights Risk Management

We have designed and adopted strict internal procedures to ensure the compliance of our business operations with the relevant rules and regulations.

In accordance with these procedures, our in-house legal department, which consists of seven employees, performs the basic function of reviewing and updating the form of contracts we enter into with our game players, distribution channels and suppliers. Our legal department examines the contract terms and reviews all relevant documents for our business operations, including licenses and permits obtained by the counterparties to perform their obligations under our business contracts and all the necessary underlying due diligence materials, before we enter into any contract or business arrangement.

We also have in place detailed internal procedures to ensure that our in-house legal department reviews our products and services, including upgrades to existing products, for regulatory compliance before they are made available to the general public. Our public relations department is responsible for obtaining any requisite governmental pre-approvals or consents, including preparing and submitting all necessary documents for filing with relevant government authorities within the prescribed regulatory timelines.

We have a dedicated team of seven employees within our in-house legal team responsible for ensuring the compliance of our online games operations with the relevant rules and regulations. For the relevant rules and regulations, see "Regulatory Overview." We carefully monitor virtual currency transactions, including issuance, purchase and trading, on our platform. We also strictly prohibit any resale of virtual currency on our platform, as well as any lottery-based activities on our platform whereby virtual items or virtual currency are given out in exchange for players' cash or virtual money.

BUSINESS

We continually review the implementation of our risk management policies and measures to ensure that our policies and implementation are effective and sufficient.

Human Resource Risk Management

We provide regular and specialized training tailored to the needs of our employees in different departments. We have a training center which regularly organizes internal training sessions conducted by senior employees or outside consultants on topics of interest which employees can vote on. The training institution, managed by the heads of our human resource and administration departments, schedules regular training, reviews the content of the training, follows up with employees to evaluate the impact of such training and rewards lecturers for positive feedback. Through the training, we ensure that our staff's skillsets remain up to date, enabling them to discover and meet our customers' needs.

We have in place multiple employee policies, including an employee handbook and the code of business conduct, approved by our management and distributed to all our employees, which contains internal rules and guidelines regarding best commercial practice, work ethics, fraud prevention mechanisms, negligence and corruption. We provide employees with regular training and resources to explain the guidelines contained in the employee handbook.

We also have in place an Anti-Corruption Policy to safeguard against any corruption within our Company. The policy explains potential corruption conduct and our anti-corruption measures. We make our internal reporting channel open and available for our staff to report any corruption acts, and our staff can also make anonymous reports to our internal audit department. Our internal audit department is responsible for investigating the reported incidents and taking appropriate measures.

Audit Committee Experience and Qualification and Board Oversight

We have established an audit committee to monitor the implementation of our risk management policies across our company on an ongoing basis to ensure that our internal control system is effective in identifying, managing and mitigating risks involved in our business operations. The audit committee consists of three members, namely Mr. Zhu Lin, Mr. Ge Xuan and Mr. Ding Zhiping, all of whom are independent non-executive Directors. Mr. Zhu Lin is the chairman of the audit committee. See "Directors and Senior Management — Directors."

We also maintain an internal audit department, which is responsible for reviewing the effectiveness of internal controls and reporting to the audit committee on any issues identified. Our internal audit department members hold regular meetings to discuss any internal control issues we face and the corresponding measures required to be implemented to resolve such issues. The internal audit department reports to the audit committee to ensure that any major issues identified thus are channeled to the committee on a timely basis. The audit committee then discusses the issues and reports to the board of directors, as necessary.

Risk Management Committee

Our risk management committee consists of three members, namely Mr. Ding Zhiping, Mr. Li Qing and Mr. Zhu Lin. Mr. Ding Zhiping is the chairman of the risk management committee. The primary duties of the risk management committee include (i) formulating and overseeing the execution of risk management policies and procedures of the Company and making recommendations to the Board

BUSINESS

accordingly; (ii) collecting and administrating the information of connected persons; (iii) managing and reviewing connected transactions, and controlling risks associated with connected transactions; (iv) reviewing information and disclosures of connected persons and connected transactions in public disclosure documents of the Company; (v) formulating the regulations and management regulations in relation to our connected transactions; and (vi) proposing to the Board for approval after deliberation of the connected transactions. See “Directors and Senior Management — Board Committees — Risk Management Committee.”

Ongoing Measures to Monitor the Implementation of Risk Management Policies

Our audit committee, internal audit department and senior management together monitor the implementation of our risk management policies on an ongoing basis to ensure that our policies and implementation are effective and sufficient.

ONGOING LEGAL PROCEEDINGS

From time to time, we have been, and may in the future be, involved in arbitration, litigation or regulatory proceedings relating to various aspects of our business operations in the ordinary course of our business. See “Risk Factors — Risks Relating to Our Business and Industry — We may become a party to legal, administrative proceedings and regulatory inquiries, which could result in an unfavorable outcome and have an adverse effect on our business, financial condition, results of operations and cash flows” and “Risk Factors — Risks Relating to Our Business and Industry — Third parties may claim that we infringe their proprietary rights, which could cause us to incur significant legal expenses and prevent us from promoting our products and services.”

In June 2019, Dashenquan Culture Technology Co., Ltd. (北京大神圈文化科技有限公司) (“Dashenquan”) brought a lawsuit against, among others, our subsidiaries, Tianjin Loong and Huai’an Loong before the Beijing Chaoyang People’s Court (the “Court”) in China, alleging that the copyright licensing agreement (the “Mobile Game Licensing Agreement”) in relation to the literary work *Dragon Raja* (龍族) (the “Fiction”) is invalid. Dashenquan sought various remedies from the Court, including the annulment of the disputed licensing agreement and the subsequent adaptation of the Fiction, the cessation of the alleged infringement and the reimbursement of litigation costs (which include case acceptance fee, application fee, and the travel expenses, accommodation expenses, living expenses and lost wages, as applicable, incurred by witnesses, expert witnesses, translators and adjusters for appearing before the court on the designated date), typically ranging from RMB500 to RMB1,000 (the “Dashenquan Litigation”). We moved to dispute the Court’s jurisdiction over the Dashenquan Litigation in July 2019. As of the Latest Practicable Date, the Court had not decided upon its jurisdiction over the Dashenquan Litigation and the case had not proceeded to the trial stage. If the Court determines that the Mobile Game Licensing Agreement is invalid, we may be ordered to cease the operation of *Dragon Raja* (龍族幻想), the mobile game adaptation of the Fiction, and be liable for the litigation costs.

In January 2015, Mr. Yang Zhi, the author of the Fiction, granted Shanghai Yangzhi Film Studio (“Yangzhi Studio”) a worldwide, exclusive, sublicensable and transferable license to adapt the Fiction into games for the period from January 2015 to January 2025 under an exclusive copyright licensing agreement (the “Game Licensing Agreement”), with the latter further sublicensing the adaptation rights of the Fiction into one web game and three mobile games to Ourpalm Co. (“Ourpalm,” a public company listed on Shenzhen Stock Exchange, stock code: 300315) for the period from January 2015 to

BUSINESS

January 2019 under an exclusive licensing agreement. Ourpalm disclosed in its publicly available annual reports its authorized IP of the Fiction since April 2015. In June 2018, we, through our subsidiary Huai'an Loong, entered into the Mobile Game Licensing Agreement with Yangzhi Studio and Ourpalm, under which we were granted the exclusive mobile game adaptation rights of the Fiction for the period from June 2018 to January 2022. We licensed *Dragon Raja* (龍族幻想) to Tencent in July 2018 and launched the game in July 2019. During the Track Record Period, the revenue generated from *Dragon Raja* (龍族幻想) amounted to RMB389.3 million for 2019, accounting for 36.5% of our total revenue of 2019. On the other hand, in August 2015, Mr. Yang and Dashenquan entered into an agency agreement (the "Agency Agreement"), designating Dashenquan as the agent entitled to the rights to sell, develop and operate the Fiction for the period from August 2015 to August 2020.

As advised by Beijing TA Law Firm, our litigation counsel with respect to this case, the likelihood of Dashenquan obtaining a favorable ruling from the Court is low mainly due to the following reasons: (1) in the correspondences between the legal representative of Dashenquan and Mr. Yang pertaining to the Agency Agreement, the game adaptation rights were expressly carved out from the scope of the Agency Agreement, which is very likely to be admissible to the Court as documentary evidence substantiating that Dashenquan has not effectively established its game adaptation rights through the Agency Agreement; (2) the fact that Mr. Yang Zhi has granted the game adaptation rights to Yangzhi Studio under the Game Licensing Agreement before the execution date of the Agency Agreement, which is likely to be admissible to the Court as evidence substantiating that the scope of the Agency Agreement does not include the exclusive game adaptation rights; and (3) Ourpalm's public disclosure of its game adaptation rights of the Fiction is likely to be deemed as a sufficient notice to Dashenquan.

Based on the current claims and grounds alleged by Dashenquan, and considering that: (1) the likelihood of a favorable judgment for Dashenquan is low; and (2) as advised by Beijing TA Law Firm, in the event that the Court's ruling is not in our favor, the likelihood of a cessation order for game operations would be low, our maximum possible liability exposure in respect of the Dashenquan Litigation would be a joint payment of the litigation costs not exceeding RMB1,000 under the condition that Dashenquan's claim remains unamended, and we would be entitled to seek any reasonable damage, loss, cost or expense arising from the litigation by filing a separate lawsuit for breach of the Mobile Game Licensing Agreement according to the PRC Contract Law, our Directors are of the view that the case would not materially affect our financial condition or results of operations.

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 our Directors that could, individually or in the aggregate, have a material adverse effect on our business, financial condition and results of operations.

COMPLIANCE

As advised by our PRC Legal Adviser, during the Track Record Period and up to the Latest Practicable Date, there was no breach or violation of PRC laws applicable to us that would, individually or in the aggregate, have a material adverse effect on our business, financial condition or results of operations. We are of the view that we had complied, in all material respects, with all relevant laws and regulations in the jurisdictions in which we operated during the Track Record Period and up to the Latest Practicable Date.

BUSINESS

LICENSES AND PERMITS

According to our PRC Legal Adviser, we have obtained all licenses, permits, approvals and certificates that are material for our business operations in the PRC and such licenses, permits, approvals and certificates are valid and subsisting.

We have obtained all licenses, permits, approvals and certificates that are material for our business operations in markets outside of mainland China, and such licenses, permits, approvals and certificates are valid and subsisting.

CONTRACTUAL ARRANGEMENTS

BACKGROUND

We are a leading mobile game developer in China with proven capabilities in developing high-quality mobile games with excellent market reception. We also engage in mobile game operation during the Track Record Period. See “Business.” We are considered to be engaged in the provision of value-added telecommunications services and internet culture business (the “**Relevant Business**”) as a result of the operations of our business. We conduct our mobile game operation business through our Consolidated Affiliated Entities, namely Tianjin Loong and its subsidiary, Huai’an Loong. Pursuant to applicable PRC laws and regulations, foreign investors are prohibited from holding equity interest in an entity conducting internet culture business and are restricted to conduct value added telecommunications services. A summary of our business that is subject to foreign investment restriction and prohibition in accordance with the 2019 Negative List is set out below:

Categories	Our Business
Prohibited	
Internet cultural business	The principal business of Tianjin Loong and Huai’an Loong involves mobile game operation, which falls within the scope of internet cultural business (互聯網文化活動) under the Internet Culture Measures. Each of Tianjin Loong and Huai’an Loong holds an Internet Cultural Operation License. According to the 2019 Negative List, foreign investors are prohibited from holding equity interests in any enterprise engaging in internet cultural business (except for music).
Restricted	
Value-added telecommunications services business	The mobile game operation business of Tianjin Loong and Huai’an Loong involves internet information services, which falls within the scope of “value-added telecommunications services” under the Telecommunications Regulations. According to the applicable PRC laws and regulations, foreign investors are not allowed to hold more than 50% equity interests in any enterprise conducting such business (except for electronic commerce, domestic multi-party communication, store-and-forward, and call center). Each of Tianjin Loong and Huai’an Loong holds an ICP License for the provision of the internet information services.

For further details of the limitations on foreign ownership in PRC companies conducting internet cultural business and value-added telecommunications services under applicable PRC laws and regulations, see “Regulatory Overview — Regulations on Foreign Investment.”

As advised by our PRC Legal Adviser, while the business of Tianjin Loong and Huai’an Loong of mobile game operation falls within the scope of “value-added telecommunication service” under the Telecommunications Regulations, where foreign investors are not allowed to hold more than 50% equity interests in any enterprise conducting such business, each of our Consolidated Affiliated Entities

CONTRACTUAL ARRANGEMENTS

conducting mobile game operation business, which also falls within the scope of internet cultural business, must concurrently hold the Internet Cultural License, which is prohibited to be held by any foreign invested companies, to operate its principal business of mobile game operation.

As a result of the foregoing, on March 10, 2020, a series of Contractual Arrangements have been entered into by, among others, Tianjin Loong, Beijing Fantasy Mermaid and the Registered Shareholders through which we obtain control over the operations of, and enjoy all economic benefits of our Consolidated Affiliated Entities. The existing agreements underlying such Contractual Arrangements comprise: (i) Exclusive Business Cooperation Agreement; (ii) Exclusive Option Agreement; (iii) Equity Pledge Agreement; and (iv) Powers of Attorney.

We believe that the Contractual Arrangements are narrowly tailored for the following reasons:

- (i) as of the Latest Practicable Date, each of the Consolidated Affiliated Entities, save for Huai'an Loong⁽¹⁾ and Hai'nan Loong⁽²⁾, held a valid ICP License and an Internet Cultural Operation License. As confirmed by our PRC Legal Adviser, online games operation business, according to the Internet Culture Measures, which is an "internet cultural business" where foreign ownership is prohibited pursuant to the 2019 Negative List. We can only conduct the Relevant Business through our Consolidated Affiliated Entities; and
- (ii) as of the Latest Practicable Date, companies with business which are not subject to any foreign investment restrictions or prohibitions, namely Beijing Fantasy Mermaid and Chengdu Fantasy Mermaid, are all held by our Company pursuant to the Reorganization such that the Contractual Arrangements are, and will continue to remain, narrowly tailored under the current PRC laws and regulations.

QUALIFICATION REQUIREMENTS UNDER THE FITE REGULATIONS

On December 11, 2001, the State Council promulgated the FITE Regulations, which were amended on September 10, 2008 and February 6, 2016. According to the FITE Regulations, foreign investors are not allowed to hold more than 50% of the equity interests of a company providing value-added telecommunications services, including ICP services. 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.

As advised by our PRC Legal Adviser, (i) no applicable PRC laws, regulations or rules have provided clear guidance or interpretation on the Qualification Requirements; and (ii) foreign investor's fulfillment of the Qualification Requirements remains ultimately subject to substantive examination of the MIIT. Given that the (i) foreign investment in online game operation business is prohibited under current PRC laws and regulations; and (ii) the Internet Cultural Operation License will not be granted to any foreign invested enterprise, it is not viable for our Company to hold the Consolidated Affiliated Entities directly or indirectly through equity ownership.

Note:

⁽¹⁾ The Internet Cultural Operation License of Huai'an Loong expired on May 10, 2020. See "Regulatory Overview — Regulatory Authorities."

⁽²⁾ As of the Latest Practicable Date, Hai'nan Loong has not yet commenced operations. It obtained an ICP License on June 1, 2020.

CONTRACTUAL ARRANGEMENTS

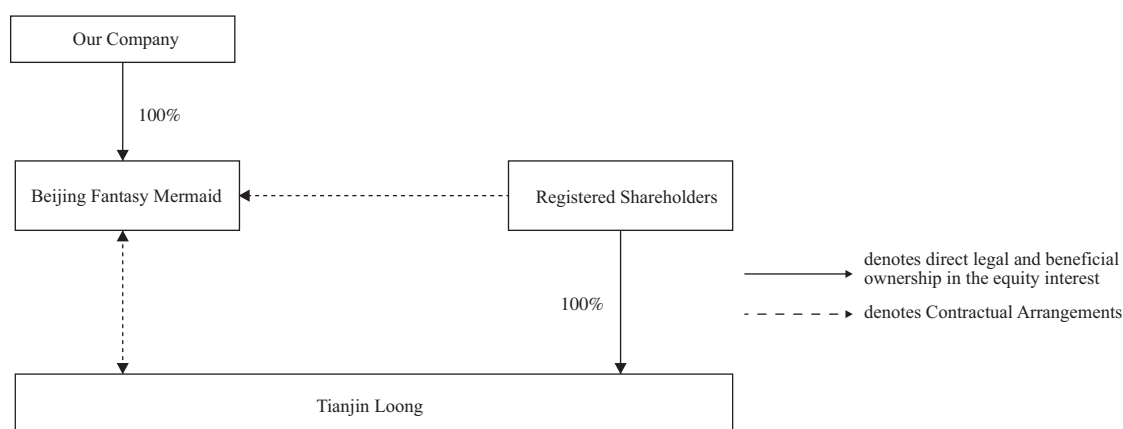
Despite the lack of clear guidance or interpretation on the Qualification Requirements, we have been gradually building up our track record of overseas value-added telecommunications services business operation for the purposes of being qualified, as early as possible, to acquire the entire equity interests in our Consolidated Affiliated Entities when the relevant PRC laws and regulations allow foreign investors to invest and to directly hold equity interest in value-added telecommunications services enterprises in China. We are in the process of expanding our overseas value-added telecommunications services business through our overseas subsidiaries. We have taken the following measures to meet the Qualification Requirements:

- i. as of the Latest Practicable Date, we have launched our games in various regional versions worldwide through our own overseas subsidiary, Famous Heart, and our international game publisher partners and third-party distribution channels with worldwide operation. We plan to continue to launch our games in multiple languages and geographical markets;
- ii. we have established a broad user base overseas. As of the Latest Practicable Date, our games had been published in plenty of overseas geographical markets. We plan to further expand our reach to other overseas markets; and
- iii. as of the Latest Practicable Date, we had registered trademarks in overseas jurisdictions.

Our representatives, representatives of the Sole Sponsor and our PRC Legal Adviser conducted an interview with the MIIT on March 18, 2020, during which it confirmed that steps such as those taken by us above may be considered to be reasonable and appropriate to prove that the Qualification Requirements are fulfilled. Our PRC Legal Adviser is of the view that the MIIT is the competent authority to give the relevant confirmation and these steps may be reasonable and appropriate to comply with the Qualification Requirements subject to the discretion of the MIIT.

OUR CONTRACTUAL ARRANGEMENTS

The diagram below illustrates the relationships among the entities under the Contractual Arrangements:



CONTRACTUAL ARRANGEMENTS

Notes:

- (1) Please refer to “Contractual Arrangements — Powers of Attorney” for details.
- (2) Please refer to “Contractual Arrangements — Exclusive Option Agreement” for details.
- (3) Please refer to “Contractual Arrangements — Equity Pledge Agreement” for details.
- (4) Please refer to “Contractual Arrangements — Exclusive Business Cooperation Agreement” for details.
- (5) As of the Latest Practicable Date, the Registered Shareholders are the following persons who together hold the 100% equity interest of Tianjin Loong:

Shareholders	Approximate percentage of shareholding
Beijing Loong	56.34%
Ningbo Longren	8.27%
Linzi Lichuang	12.35%
Perfect World	18.05%
Ningbo Qiance	5.00%

SUMMARY OF THE MATERIAL TERMS OF THE CONTRACTUAL ARRANGEMENT

A description of each of the specific agreements that comprise the Contractual Arrangements is set out below.

Exclusive Business Cooperation Agreement

Tianjin Loong and Beijing Fantasy Mermaid entered into the Exclusive Business Cooperation Agreement on March 10, 2020, pursuant to which Tianjin Loong agreed to engage Beijing Fantasy Mermaid as its exclusive service provider of comprehensive business support, technical services and consultation services, including (1) management consultation; (2) technical consultation; (3) technical service; (4) business support; (5) marketing and promotion; (6) development, maintenance and upgrade of software; (7) maintenance of the system; (8) human resource support; (9) rental of equipment; and (10) other relevant services requested by Tianjin Loong from time to time to the extent permitted under PRC laws and regulations.

Pursuant to the Exclusive Business Cooperation Agreement, the service fee shall be equivalent to the total consolidated net profit of Tianjin Loong, after offsetting the prior-year loss (if any), operating costs, expenses, taxes and other statutory contributions. Notwithstanding the foregoing, Beijing Fantasy Mermaid shall have the right to adjust the level of the service fee based on the actual service scope and with reference to the operating conditions and expansion needs of the Consolidated Affiliated Entities. Tianjin Loong has agreed to pay the service fee to the bank account designated by Beijing Fantasy Mermaid within five business days after Beijing Fantasy Mermaid issues the payment notice. In addition, pursuant to the Exclusive Business Cooperation Agreement, without the prior written approval from Beijing Fantasy Mermaid, Tianjin Loong shall not, and shall procure the other Consolidated

CONTRACTUAL ARRANGEMENTS

Affiliated Entities not to, enter into any transactions (save as those transactions entered into in the ordinary course of business) that may materially affect its assets, obligations, rights or operation, including but not limited to:

- (1) the sale, transfer, mortgage or otherwise dispose of any assets exceeding 15% of its latest audited total assets (except for those in the ordinary course of business of the Consolidated Affiliated Entities), business, management right or beneficial interest of income;
- (2) the provision exceeding 15% of its latest audited total assets of any guarantee or any financial assistance to third parties or the occurrence of any indebtedness;
- (3) the entering into of any material contracts (except for those where contract amount is within 15% of its audited net profit in the most recent fiscal year and those which are entered into within the ordinary course of business of the Consolidated Affiliated Entities);
- (4) any merger, acquisition or restructuring; and
- (5) cause any conflict of interest between Tianjin Loong and Beijing Fantasy Mermaid as well as its shareholders.

The Exclusive Business Cooperation Agreement also provides that Beijing Fantasy Mermaid has the exclusive proprietary rights in any and all intellectual property rights developed or created by the Consolidated Affiliated Entities during the performance of the Exclusive Business Cooperation Agreement. Our Directors consider that the above arrangements will ensure the economic benefits generated from the operations of the Consolidated Affiliated Entities will flow to Beijing Fantasy Mermaid and hence, our Group as a whole. The Exclusive Business Cooperation Agreement has an indefinite term commencing from March 10, 2020, being the date of the Exclusive Business Cooperation Agreement. The Exclusive Business Cooperation Agreement may be terminated by Beijing Fantasy Mermaid (i) by giving Tianjin Loong a 30 days' prior written notice of termination; (ii) upon the transfer of the entire equity interests in and the transfer of all assets of Tianjin Loong to Beijing Fantasy Mermaid or its designated person pursuant to the Exclusive Option Agreement; (iii) when Tianjin Loong ceases to operate any business, becomes insolvency, bankruptcy or subject to liquidation or dissolution procedures; (iv) when relevant government authorities refuse to renew the expired operating period of Tianjin Loong or Beijing Fantasy Mermaid; (v) when it is legally permissible for Beijing Fantasy Mermaid to hold equity interests directly or indirectly in Tianjin Loong and Beijing Fantasy Mermaid or its designated person is registered to be the shareholder of Tianjin Loong; or (vi) Tianjin Loong breaches the Exclusive Business Cooperation Agreement. Tianjin Loong is not contractually entitled to unilaterally terminate the Exclusive Business Cooperation Agreement with Beijing Fantasy Mermaid.

Exclusive Option Agreement

Beijing Fantasy Mermaid, Tianjin Loong and the Registered Shareholders entered into the Exclusive Option Agreement on March 10, 2020, pursuant to which the Registered Shareholders severally granted irrevocably to Beijing Fantasy Mermaid the rights to require the Registered Shareholders to transfer any or all their equity interests and to require Tianjin Loong to transfer any or all of its assets to Beijing Fantasy Mermaid and/or a third party designated by it, in whole or in part at any time and from time to time, at a minimum purchase price permitted under PRC laws and regulations. If not explicitly specified in PRC laws and regulations, the transfer price shall be free or the nominal price. The Registered

CONTRACTUAL ARRANGEMENTS

Shareholders have also undertaken that, subject to the relevant PRC laws and regulations, they will return to Beijing Fantasy Mermaid any consideration they receive in the event that Beijing Fantasy Mermaid exercises the options under the Exclusive Option Agreement to acquire the equity interests and/or assets in Tianjin Loong.

Pursuant to the Exclusive Option Agreement, the Registered Shareholders and Tianjin Loong have undertaken to perform certain acts or refrain from performing certain other acts unless they have obtained prior approval from Beijing Fantasy Mermaid, including but not limited to the following matters:

- (1) Tianjin Loong shall not in any manner supplement, change or alter its constitutional documents or increase or decrease its registered capital or change the structure of its registered capital in other manner without prior written consent of Beijing Fantasy Mermaid;
- (2) Tianjin Loong shall prudently and effectively operate its business and transactions in accordance with the good financial and business standards;
- (3) Tianjin Loong shall not sell, transfer, mortgage or otherwise dispose of any assets exceeding 15% of Tianjin Loong's latest audited total assets, business, legal or beneficial interest of its income or allow any guarantee or security to be created on its assets except for normal business operations;
- (4) Tianjin Loong shall not incur, inherit, guarantee or allow any indebtedness exceeding 15% of its latest audited total assets other than those having been disclosed to and consented by Beijing Fantasy Mermaid in writing;
- (5) Tianjin Loong shall not enter into any material contracts with an amount exceeding 15% of its audited net profit in the most recent fiscal year without Beijing Fantasy Mermaid's prior written consent, except the contracts executed in the ordinary course of business or contracts entered between Tianjin Loong and our Company (or any of our subsidiaries);
- (6) Tianjin Loong shall operate its business in order to maintain its asset value or not allow any acts or omission which adversely affects its business or assets value;
- (7) Tianjin Loong shall not engage in any mergers or acquisitions or make investment in any entities;
- (8) Tianjin Loong shall immediately inform Beijing Fantasy Mermaid if its assets or business involved in any disputes, litigations, arbitrations or administrative proceedings;
- (9) Tianjin Loong shall not distribute any dividend to its shareholders without Beijing Fantasy Mermaid's written consent. To the extent permitted under the relevant PRC laws and regulations, each Registered Shareholder shall inform and transfer all distributable dividends, capital dividend and other asset receivable by it to Beijing Fantasy Mermaid as soon as possible after receiving such interests;
- (10) Tianjin Loong and its affiliates shall provide its operation and financial information to Beijing Fantasy Mermaid or its designated person upon Beijing Fantasy Mermaid's request;

CONTRACTUAL ARRANGEMENTS

- (11) Tianjin Loong and its affiliates shall not separate, or merge, or enter into joint operation agreements with other entities, or acquire or be acquired by other entities, or invest in any entities without Beijing Fantasy Mermaid's written consent;
- (12) Tianjin Loong shall sign all necessary and appropriate documents, take all necessary and proper acts, bring up all necessary and proper requests, or raise necessary and proper defenses against claims to maintain Tianjin Loong and its affiliates' ownership for all the assets; and
- (13) if the Registered Shareholders or Tianjin Loong fails to perform the tax obligations under applicable laws and results in obstacles for Beijing Fantasy Mermaid to exercise its exclusive option right, Tianjin Loong or the Registered Shareholders shall pay the taxes or pay the same amount to Beijing Fantasy Mermaid so Beijing Fantasy Mermaid may pay the taxes instead.

The Exclusive Option Agreement has an indefinite term commencing from March 10, 2020, being the date of the Exclusive Option Agreement, until it is terminated (i) by Beijing Fantasy Mermaid through giving Tianjin Loong and the Registered Shareholders a prior written notice of termination; or (ii) upon the transfer of the entire equity interests held by the Registered Shareholders and/or the transfer of all the assets of Tianjin Loong to Beijing Fantasy Mermaid or its designated person and the completion of registration with the relevant local branch of the SAIC. Neither Tianjin Loong nor the Registered Shareholders is contractually entitled to terminate the Exclusive Option Agreement unless otherwise required by PRC laws and regulations.

Equity Pledge Agreement

Beijing Fantasy Mermaid, Tianjin Loong and the Registered Shareholders entered into the Equity Pledge Agreement on March 10, 2020, pursuant to which each of the Registered Shareholders agreed to pledge all of their respective equity interests in Tianjin Loong to Beijing Fantasy Mermaid as a security interest to guarantee the performance of contractual obligations and the payment of outstanding debts under the Contractual Arrangements.

Under the Equity Pledge Agreement, Tianjin Loong and the Registered Shareholders represent and warrant to Beijing Fantasy Mermaid that appropriate arrangements have been made to protect Beijing Fantasy Mermaid's interests in the event of bankruptcy of the Registered Shareholders to avoid any practical difficulties in enforcing the Equity Pledge Agreement and shall procure or use its reasonable efforts to procure any successors of the Registered Shareholders to comply with the same undertakings as if they were parties to the Equity Pledge Agreement. If Tianjin Loong declares any dividend during the term of the pledge, Beijing Fantasy Mermaid is entitled to receive all such dividends, bonus issue or other income arising from the pledged equity interests, if any. If any of the Registered Shareholders or Tianjin Loong breaches or fails to fulfill the obligations under any of the aforementioned agreements, Beijing Fantasy Mermaid, as the pledgee, will be entitled to escrow of the pledged equity interests, entirely or partially. In addition, pursuant to the Equity Pledge Agreement, each of the Registered Shareholders has undertaken to Beijing Fantasy Mermaid, among other things, not to transfer its equity interests in Tianjin Loong and not to create or allow any pledge thereon that may affect the rights and interest of Beijing Fantasy Mermaid without its prior written consent.

The equity pledge under the Equity Pledge Agreement takes effect upon the completion of registration with the relevant local branch of the SAIC and shall remain valid until (i) all the obligations under the Contractual Arrangements have been fulfilled; (ii) each of the Registered Shareholders has transferred all of its equity interests in Tianjin Loong in accordance with the Exclusive Option Agreement and the pledgee can legally conduct the mobile game operation business; (iii) all of it is terminated as required by applicable PRC laws and regulations; (iv) Tianjin Loong has transferred all of its assets in

CONTRACTUAL ARRANGEMENTS

accordance with the Exclusive Option Agreement and the pledgee can legally conduct the mobile game operation business; or (v) the Equity Pledge Agreement has been unilaterally terminated by Beijing Fantasy Mermaid.

The registration of the Equity Pledge Agreement as required by the relevant laws and regulations has been completed in accordance with the terms of the Equity Pledge Agreement and PRC laws and regulations on March 18, 2020.

Powers of Attorney

The Registered Shareholders have executed Powers of Attorney on March 10, 2020, pursuant to which, each Registered Shareholder irrevocably appoints Beijing Fantasy Mermaid or its designated person, as its attorney-in-fact to exercise such shareholder's rights in Tianjin Loong, including without limitation to, the rights to (i) convene and participate in shareholders' meeting pursuant to the articles of Tianjin Loong in the capacity of a proxy of the Registered Shareholder; (ii) exercise the voting rights pursuant to the relevant PRC laws and regulations and the articles of Tianjin Loong, on behalf of the Registered Shareholder, and adopt resolutions, on matters to be discussed and resolved at shareholders' meetings and the appointment and election of directors of Tianjin Loong; (iii) sign or submit any required document to any company registry or other authorities in the capacity of a proxy of each Registered Shareholder; and (iv) to nominate, elect, designate or appoint and remove the legal representative, directors, supervisors and other senior officers of Tianjin Loong pursuant to the articles of association of Tianjin Loong; to raise lawsuits or other legal proceedings against the directors and senior officers of Tianjin Loong when their behaviours harm the interest of its shareholders; and to instruct the directors and senior officers to act in accordance with our attention.

Each of Onshore Pre-IPO Investors has undertaken that it will not undertake any action in violation of the purpose or intent of the Powers of Attorney, and will refrain from utilizing any information obtained from Beijing Fantasy Mermaid that may cause any conflict of interest between Onshore Pre-IPO Investors and Beijing Fantasy Mermaid or its shareholders.

Each of the Registered Shareholders (excluding the Onshore Pre-IPO Investors) has undertaken that it will refrain from any action or omission that may cause any conflict of interest between the Registered Shareholders (excluding the Onshore Pre-IPO Investors) and Beijing Fantasy Mermaid or its shareholders.

The Powers of Attorney has an indefinite term commencing from March 10, 2020 and will be terminated in the event that (i) the Powers of Attorney is unilaterally terminated by Beijing Fantasy Mermaid; or (ii) it is legally permissible for Beijing Fantasy Mermaid, our Company or any of our subsidiaries to hold equity interests directly or indirectly in Tianjin Loong and Beijing Fantasy Mermaid or its designated person is registered to be the sole shareholder of Tianjin Loong.

CONTRACTUAL ARRANGEMENTS

Other Key Terms of the Contractual Arrangements

A description of other key terms that apply to the applicable agreements under the Contractual Arrangements is set out below:

Protection in the Event of Bankruptcy of the Registered Shareholders and Arrangements to Protect our Group's Interests in the Event of Death, Bankruptcy or Divorce of the Beneficial Shareholders of Tianjin Loong

Our Registered Shareholders include Beijing Loong, Ningbo Longren, Ningbo Qiance, Linzhi Lichuang and Perfect World. Pursuant to the Contractual Arrangements, each of Beijing Loong, Ningbo Longren, and Ningbo Qiance shall not, among others, (i) file a petition for corporate separation, merger, bankruptcy, liquidation, dissolution and termination, or (ii) change its controlling shareholder, ultimate shareholder, and partner, without prior written consent of Beijing Fantasy Mermaid. Furthermore, each of Beijing Loong, Ningbo Longren, and Ningbo Qiance undertakes to Beijing Fantasy Mermaid that, in the event of bankruptcy, liquidation or other circumstances regarding Beijing Loong, Ningbo Longren or Ningbo Qiance which may affect the exercise of its direct or indirect equity interest in Tianjin Loong, Beijing Loong, Ningbo Longren or Ningbo Qiance's respective successor, liquidator, and any other person/entity which may as a result of the above events obtain the equity interest or relevant rights directly or indirectly, shall not prejudice or hinder the enforcement of the Contractual Arrangements.

Each of the Onshore Pre-IPO Investors, including Linzhi Lichuang and Perfect World, undertakes to Beijing Fantasy Mermaid that, in the event of bankruptcy, liquidation or other circumstances regarding Onshore Pre-IPO Investors which may affect the exercise of its direct or indirect equity interest in Tianjin Loong, each of Onshore Pre-IPO Investors shall use their reasonable efforts to procure the respective successor, liquidator, and any other person/entity which may as a result of the above events obtain the equity interest or relevant rights directly or indirectly to enforce the Contractual Arrangements.

Beijing Loong, Ningbo Longren and Ningbo Qiance hold a majority voting right in Tianjin Loong (i.e. an aggregate of 69.61% of its equity interest). Each of Beijing Loong, Ningbo Qiance and Ningbo Longren is ultimately owned by our Controlling Shareholders or our employees, which would be favourable for the enforcement of the Contractual Arrangements. Each of the ultimately individual shareholders of Beijing Loong, Ningbo Qiance and Ningbo Longren (the "**Relevant Individual Shareholders**") has confirmed and issued an undertaking to our Company that (i) he will sign all necessary documents and take all necessary acts to ensure the proper performance of the Contractual Arrangements, and (ii) he will take all necessary measures to ensure that, in the event of his death, restricted capacity or incapacity, divorce or any other event which causes his inability to exercise his rights as an indirect shareholder of Tianjin Loong to perform the foregoing undertaking, his successors (including his spouse) and any other person/entity which may as a result of the above events obtain the equity interest or relevant rights in Tianjin Loong directly or indirectly will be bound by the undertaking to support and safeguard the enforcement of Contractual Arrangements.

The spouse of each of the Relevant Individual Shareholders, where applicable, has also signed an undertaking (the "**Spouse Undertakings**") to the effect that (i) she will not claim any Relevant Individual Shareholders' direct or indirect equity interests in Tianjin Loong and thus the enforcement, revision or termination of the Contractual Arrangements shall not subject to her authorization or consent, (ii) she will sign all necessary documents and take all necessary acts to ensure the proper

CONTRACTUAL ARRANGEMENTS

performance of the Contractual Arrangements and (iii) in the event that she obtains any direct or indirect equity interests in Tianjin Loong from her spouse, she will be subject to and be abided by any obligations as the ultimate shareholders of Tianjin Loong regarding the Contractual Arrangements, and at the request of Beijing Fantasy Mermaid, she will sign any documents in the form and substance consistent with agreements under the Contractual Arrangements.

As advised by our PRC Legal Adviser, there is no legal impediments to enforce the terms and arrangements under the Contractual Arrangement to safeguard the interests of the Shareholders in the event of any bankruptcy or liquidation of the Registered Shareholders.

Dispute Resolution

In the event of any dispute with respect to the construction and performance of the provisions, each of the Contractual Arrangements stipulates that:

- (a) the parties shall negotiate in good faith to resolve the dispute;
- (b) in the event the parties fail to settle the dispute within 30 days of a negotiation request, any party may submit the relevant dispute to the Beijing Arbitration Commission for arbitration, in accordance with the then effective arbitration rules of Beijing Arbitration Commission. The arbitration shall be conducted in Beijing. The arbitration ruling shall be final and binding on all parties;
- (c) the arbitral tribunal may award remedies over the equity interest, assets and property interest of our Consolidated Affiliated Entities, injunctive relief or order the winding up of our Consolidated Affiliated Entities; and
- (d) upon the request by any party, the courts of competent jurisdictions shall have the power to grant interim remedies in support of arbitration pending information of the arbitral tribunal or in appropriate cases. The courts of the PRC, Hong Kong, the Cayman Islands and other courts with jurisdiction, including but not limited to the place where the principal assets of our Company and our Consolidated Affiliated Entities are located shall be considered as having jurisdiction for the above purposes.

In connection with the dispute resolution method as set out in the Contractual Arrangements and the practical consequences, we are advised by our PRC Legal Adviser that:

- (a) a tribunal has no power to grant such injunctive relief, nor will it be able to order the winding up of our Consolidated Affiliated Entities pursuant to current PRC laws and regulations; and
- (b) interim remedies or enforcement orders granted by overseas courts such as Hong Kong and Cayman Islands may not be recognisable or enforceable in the PRC; therefore, in the event we are unable to enforce the Contractual Arrangements, we may not be able to exert effective control over our Consolidated Affiliated Entities.

As a result of the above, in the event that Tianjin Loong or the Registered 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 our Tianjin Loong and conduct our business could be

CONTRACTUAL ARRANGEMENTS

materially and adversely affected. See “Risk Factors — Risks Relating to Our Contractual Arrangements — The shareholders and directors of Tianjin Loong may have conflicts of interest with us, which may materially and adversely affect our business” for details.

Conflict of Interest

Each of Registered Shareholders has given its irrevocable undertakings in the Powers of Attorney which address potential conflicts of interests that may arise in connection the Contractual Arrangements. See “— Powers of Attorney.”

Loss Sharing

Under the relevant PRC laws and regulations, none of our Company or Beijing Fantasy Mermaid is legally required to share the losses of, or provide financial support to, our Consolidated Affiliated Entities. Further, our Consolidated Affiliated Entities are limited liability companies and shall be solely liable for their own debts and losses with assets and properties owned by them. Beijing Fantasy Mermaid intends to continuously provide to or assist our 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 our 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 statements under the applicable accounting principles, our Company’s business, financial position and results of operations would be adversely affected if our Consolidated Affiliated Entities suffer losses.

Liquidation

Pursuant to the Exclusive Option Agreement, in the event of a mandatory liquidation required by the PRC laws and regulations, the Registered Shareholders have irrevocably undertaken that, in compliance with the PRC laws and regulations, Tianjin Loong shall transfer all remaining asset to Beijing Fantasy Mermaid or assignee, at nil or the lowest price as permitted by the PRC laws and regulations, after deduction of payments of liquidate expenses, staff salaries, social security fee, statutory compensation, and outstanding taxes and settlement of other debts. Tianjin Loong shall waive any payment obligation of Beijing Fantasy Mermaid or assignee arising thereon to the extent permitted by then applicable laws of the PRC in force; or shall return Beijing Fantasy Mermaid or assignee any income (if any) arising from such transaction to the extent permitted by then applicable laws of the PRC in force.

Pursuant to the Exclusive Option Agreement and the Exclusive Business Cooperation Agreement, the Registered Shareholders have undertaken to appoint a committee designated by Beijing Fantasy Mermaid as liquidation committee upon the winding up of Tianjin Loong to manage its assets. However, in the event of a mandatory liquidation required by PRC laws and regulations or bankruptcy liquidation, these provisions may not be enforceable under the PRC laws and regulations.

Insurance

Our Company does not maintain an insurance policy to cover the risks relating to the Contractual Arrangements.

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 business through our Consolidated Affiliated Entities under the Contractual Arrangements.

LEGALITY OF THE CONTRACTUAL ARRANGEMENTS

We believe that the Contractual Arrangements are narrowly tailored and such arrangements are only used to enable our Group to combine the financial results of our Consolidated Affiliated Entities which engage or will engage in the operation of our mobile game operation business, which are subject to foreign investment restriction and/or prohibition in accordance with applicable PRC laws and regulations.

Our PRC Legal Adviser is of the opinion that:

- (i) each of the agreements comprising the Contractual Arrangements are legal, valid and binding on the parties thereto, enforceable under applicable PRC laws and regulations, except that (a) the Contractual Arrangements provide that the arbitral body may award remedies over the shares and/or assets or award injunctive relief and/or order the winding up of our Consolidated Affiliated Entities, and that courts of competent jurisdictions are empowered to grant interim remedies in support of the arbitration pending the formation of an arbitral tribunal or in appropriate cases, while under PRC laws and regulations, an arbitral body has no power to grant injunctive relief or to order an entity to wind up, and the aforesaid interim remedies granted by competent courts may not be recognizable or enforceable in the PRC; and (b) the Contractual Arrangements provide that the Registered Shareholders undertake to appoint a committee designated by Beijing Fantasy Mermaid as the liquidation committee upon the winding up of Tianjin Loong to manage its assets; however, in the event of a mandatory liquidation required by PRC laws and regulations, these provisions may not be enforceable;
- (ii) each of the agreements comprising the Contractual Arrangements does not violate the provisions of the articles of associations of Beijing Fantasy Mermaid and Tianjin Loong, respectively; and
- (iii) no approval or authorization from the PRC governmental authorities are required for entering into and the performance of the Contractual Arrangements except that (a) the pledge of any equity interest in Tianjin Loong for the benefit of Beijing Fantasy Mermaid is subject to registration requirements with the relevant governmental authority which has been duly completed on March 18, 2020; and (b) the exercise of any exclusive option rights by Beijing Fantasy Mermaid under the Exclusive Option Agreement may subject to the approval, filing or registration requirements with the relevant authorities under the then prevailing PRC laws and regulations.

Our PRC Legal Adviser, our representatives and representatives of the Sole Sponsor conducted an interview with the MIIT on March 18, 2020, and an interview with the Tianjin Municipal Bureau of Culture and Tourism (天津市文化和旅遊局) on March 18, 2020, which have provided oral confirmations that (i) our Contractual Arrangements are commercial arrangements that would not violate relevant PRC laws and regulations, and would not be subject to any approval, consent or filing from relevant authorities or penalty from the MIIT and the Tianjin Municipal Bureau of Culture and Tourism; and (ii) the ICP License and Internet Cultural Operation License held by Tianjin Loong will not be

CONTRACTUAL ARRANGEMENTS

revoked due to the execution of the Contractual Arrangements. Our PRC Legal Adviser is of the view that (a) the MIIT is the competent government authority for our Company's principal business; (b) the Tianjin Municipal Bureau of Culture and Tourism was the competent government authority for our Company's principal business during the Track Record Period; and (c) the personnel who gave the aforementioned oral confirmations in the interview have the authority to give such oral confirmations on behalf the MITT and the Tianjin Municipal Bureau of Culture and Tourism, respectively.

Based on the above analysis and advice from our PRC Legal Adviser and confirmation from relevant governmental authorities, our 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, and except for the relevant clauses as described in the paragraph headed "Dispute Resolution" and "Liquidation" in this section, each of the agreements under the Contractual Arrangements is enforceable under the PRC laws and regulations.

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 2012 which invalidated certain contractual arrangements 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 (中華人民共和國合同法) and the General Principles of the PRC Civil Law (中華人民共和國民法通則). It has been further reported that these court rulings and arbitral decisions may increase (i) the possibility of the PRC courts and/or arbitration panels taking similar actions against contractual arrangements commonly adopted by foreign investors to engage in restricted or prohibited businesses in the PRC; and (ii) the incentive for the registered shareholders under such contractual arrangements to renege on their contractual obligations.

Pursuant to Article 52 of the PRC Contract Law, a contract is void, among other circumstances, where an illegitimate purpose is concealed under the guise of legitimate acts; our PRC Legal Adviser is of the view that the agreements under the Contractual Arrangements would not be deemed as "concealing illegal intentions with a lawful form" under Article 52 of the PRC Contract Law for the following reasons: (a) 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; and (b) the purpose of the Contractual Arrangements is not to conceal illegal intentions, but to pass the economic interests received by our Consolidated Affiliated Entities to our Company.

Given that the Contractual Arrangements will constitute non-exempt continuing connected transactions of our Company upon the Global Offering, a waiver has been sought from and has been granted by the Hong Kong Stock Exchange, details of which are disclosed in the section headed "Connected Transactions" in this prospectus.

ACCOUNTING ASPECTS OF THE CONTRACTUAL ARRANGEMENTS

Consolidation of Financial Results of our Consolidated Affiliated Entities

Under the Exclusive Business Cooperation Agreement, it was agreed that, in consideration of the services provided by Beijing Fantasy Mermaid, Tianjin Loong will pay services fees to Beijing Fantasy Mermaid. The services fees, subject to the Beijing Fantasy Mermaid's adjustment, are equal to the entirety of the total consolidated profit of Tianjin Loong (net of accumulated deficit of the Consolidated

CONTRACTUAL ARRANGEMENTS

Affiliated Entities in the previous financial years (if any), costs, expenses, taxes and payments required by the relevant laws and regulations to be reserved or withheld). Beijing Fantasy Mermaid may adjust the services scopes and fees at its discretion in accordance with PRC tax law and practice as well as the needs of the working capital of our Consolidated Affiliated Entities. Beijing Fantasy Mermaid also has the right to periodically receive or inspect the accounts of our Consolidated Affiliated Entities. Accordingly, the Beijing Fantasy Mermaid has the ability, at its sole discretion, to extract all of the economic benefit of Tianjin Loong through the Exclusive Business Cooperation Agreement.

In addition, under the Exclusive Business Cooperation Agreement and the Exclusive Option Agreement, Beijing Fantasy Mermaid has absolute contractual control over the distribution of dividends or any other amounts to the equity holders of our Consolidated Affiliated Entities as Beijing Fantasy Mermaid's prior written consent is required before any distribution can be made. In the event that the Registered Shareholders receive any profit distribution or dividend from our Consolidated Affiliated Entities, the Registered 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.

As a result of these Contractual Arrangements, our Company has obtained control of our Consolidated Affiliated Entities through Beijing Fantasy Mermaid and, at our Company's sole discretion, can receive all of the economic interest returns generated by our Consolidated Affiliated Entities. Accordingly, the results of operations, assets and liabilities, and cash flows of our Consolidated Affiliated Entities are consolidated into our Company's financial statements.

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. Our Reporting Accountant, has issued an unqualified opinion on our Group's combined financial information as of and for the years ended December 31, 2017, 2018 and 2019 as included in the Accountant's Report set out in Appendix I to this prospectus.

FOREIGN INVESTMENT LAW

Background

On March 15, 2019, the 2019 FIL was formally passed by the thirteenth NPC and took effect on January 1, 2020. The 2019 FIL stipulates forms of foreign investment as below:

- foreign investors set up foreign invested enterprises in China severally or jointly with other investors;
- foreign investors acquire shares, equity, properties or other similar interests in any domestic enterprise;
- foreign investors invest in new projects in China severally or jointly with other investors; and
- foreign investors invest through any other methods under laws, administrative regulations, or provisions prescribed by the State Council.

CONTRACTUAL ARRANGEMENTS

The 2019 FIL stipulates that the negative list is applied in certain industry sectors. The negative list set out in the 2019 FIL classified the relevant prohibited and restricted industries into the catalog of prohibitions and the catalog of restrictions, respectively. Where any foreign investor directly or indirectly holds shares, equity, properties or other interests in any domestic enterprise, such domestic enterprise is not allowed to invest in any sector set out in the catalog of prohibitions. Foreign investors are allowed to invest in sectors set out in the catalog of restrictions, subject to certain conditions. Foreign investors are allowed to invest in any sector beyond the negative list and shall be managed on the same basis as domestic investments.

Where a foreign investor invests in the sectors specified in the catalog of prohibitions, the relevant competent departments shall order it to stop the investment activities, and dispose of the shares, properties or other necessary measures within a time limit to restore the state before the investment is implemented and the illegal income shall be confiscated (if any). Where the investment activities of a foreign investor violate the restrictive special management measures stipulated in the sectors specified in the catalog of restrictions, the relevant competent departments shall order it to make corrections and take necessary measures to meet the requirements for access to special management measures; where the offender refuses to make corrections, punishments are implemented according to the provisions of the preceding paragraph.

Impact and potential consequences of the 2019 FIL on the Contractual Arrangements

Our PRC Legal Adviser has advised that, since the contractual arrangements are not specified as foreign investments under the 2019 FIL, and no relevant laws, administrative regulations or provisions of the State Council have incorporated contractual arrangements as a form of foreign investment, the 2019 FIL does 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 our Contractual Arrangements. Therefore, each of the agreements comprising the Contractual Arrangements will not be materially affected and will continue to be legal, valid and binding on the parties if there are no changes to relevant laws and regulations in this respect. Notwithstanding the above, the 2019 FIL stipulates that foreign investors investing through any other methods stipulated under laws, administrative regulations or provisions of the State Council may be considered as a form of foreign investment. It is therefore possible that future laws, administrative regulations or provisions of the State Council may stipulate contractual arrangements as a way of foreign investment. However, as of the Latest Practicable Date, it was uncertain as to how our Contractual Arrangements will be handled.

If Relevant Business is no longer falling in the catalog of prohibitions or certain conditions and permission of foreign investment access required under the 2019 Negative List and we can legally operate our business under PRC laws and regulations, Beijing Fantasy Mermaid will exercise the call option under the Exclusive Option Agreement to acquire the equity interest/assets of Tianjin Loong and unwind the Contractual Arrangements subject to any applicable approvals from the relevant governmental authorities, and subject to any application or approval procedures by the relevant governmental authorities.

CONTRACTUAL ARRANGEMENTS

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;
- (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 our annual reports;
- (4) our Company will engage external legal advisors or other professional advisers, if necessary, to assist the Board to review the implementation of the Contractual Arrangements, review the legal compliance of Beijing Fantasy Mermaid and our Consolidated Affiliated Entities to deal with specific issues or matters arising from the Contractual Arrangements.

CONNECTED TRANSACTIONS

OUR CONNECTED TRANSACTIONS

Upon Listing, several transactions entered into between members of our Group and our connected persons will constitute connected transactions or continuing connected transactions under Chapter 14A of the Listing Rules.

In addition, the transactions contemplated under the Contractual Arrangements, through which we obtained effective control over the financial and operational policies of our Consolidated Affiliated Entities and become entitled to all the economic benefits derived from their operations, constitute continuing connected transactions of our Company under the Listing Rules upon Listing.

SUMMARY OF OUR CONNECTED PERSONS

The table below sets forth the parties who will become our connected persons upon Listing and the nature of their relationship with our Group:

Name of our connected persons	Connected relationship
Mr. Li Qing	one of our Controlling Shareholders and our executive Director
Beijing Loong	associate of Mr. Li Qing, one of our Controlling Shareholders and our executive Director
Perfect World Holding	one of our substantial Shareholders
Perfect World Group, including but not limited to Perfect World	Perfect World Holding, one of our substantial Shareholders, and its respective affiliate(s) and/or subsidiaries
Tencent	one of our substantial Shareholders
Tencent Group, including but not limited to Linzhi Lichuang, Tencent Computer, Tencent Cloud and Sixjoy	Tencent, one of our substantial Shareholders, and its respective affiliate(s) and/or subsidiaries

CONNECTED TRANSACTIONS

SUMMARY OF OUR CONTINUING CONNECTED TRANSACTIONS

Continuing connected transactions	Applicable Listing Rules	Waivers sought	Historical amounts for the years ended December 31, (RMB in million)	Proposed annual cap for the years ending December 31, (RMB in million)
Exempt Continuing Connected Transaction				
1. Tencent Promotion and Advertising Services (Expense-based)				
Service fees incurred by us to the Tencent Group	14A.34 14A.52 14A.53 14A.76	N/A	2017: 0.57 2018: Nil 2019: 1.42	N/A
Non-exempt Continuing Connected Transactions				
2. Game Cooperation with Perfect World Group (Expense-based)				
(i) Fixed licensing fees incurred by us to the Perfect World Group	14A.34 14A.35 14A.49 14A.53	Announcement requirement	2017: 83.30 2018: 31.15 2019: 17.81	2020: 9.50 2021: 6.50 2022: 5.30
(ii) Revenue sharing incurred by us to the Perfect World Group	14A.71 14A.76(2) 14A.81 14A.105			
3. Perfect World Graphic Design Services (Expense-based)				
Service fees incurred by us to Perfect World Group	14A.34 14A.35 14A.49 14A.53 14A.71 14A.76(2) 14A.81 14A.105	Announcement requirement	2017: 9.03 2018: 4.08 2019: Nil	2020: 19.40 2021: 15.80 2022: 14.20
4. Cloud Services of Tencent (Expense-based)				
Service fees incurred by us to Tencent Cloud	14A.34 14A.35 14A.49 14A.53 14A.71 14A.76(2) 14A.81 14A.105	Announcement requirement	2017: 3.25 2018: 3.98 2019: 3.39	2020: 4.30 2021: 4.40 2022: 4.80

CONNECTED TRANSACTIONS

Continuing connected transactions	Applicable Listing Rules	Waivers sought	Historical amounts for the years ended December 31, (RMB in million)	Proposed annual cap for the years ending December 31, (RMB in million)
5. Publishing of Games on Tencent Platforms (Expense-based)				
Monthly commissions incurred by us to the Tencent Group	14A.34 14A.35 14A.49 14A.53 14A.71 14A.76(2) 14A.81 14A.105	Announcement requirement	2017: 16.83 2018: 8.56 2019: 1.90	2020: 1.90 2021: 0.90 2022: 0.40
6. Exclusive Publishing and Operation of Games by Tencent (Revenue-based)				
(i) Fixed licensing fees incurred by the Tencent Group to us	14A.34 14A.35 14A.36 14A.49	Announcement and independent Shareholders' approval requirements	2017: 514.73 2018: 350.95 2019: 585.69	2020: 967.00 2021: 1,356.50 2022: 1,617.90
(ii) Revenue sharing incurred by the Tencent Group to us	14A.53 to 59 14A.71 14A.76 14A.81 14A.105			
7. Contractual Arrangements				
Contractual Arrangements	14A.34 14A.35 14A.36 14A.49 14A.52 to 59 14A.71 14A.76 14A.81 14A.105	Announcement and independent Shareholders' approval requirements, the requirement of setting an annual cap and the requirement of limiting the term to three years or less	N/A	N/A

CONNECTED TRANSACTIONS

EXEMPT CONTINUING CONNECTED TRANSACTIONS

We set out below a summary of the continuing connected transactions for our Group which are exempt from all the reporting, annual review, announcement, circular and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

1. Tencent Promotion and Advertising Services

We have entered into a game cooperation framework agreement on June 22, 2020 with the Tencent Group (the "**Tencent Game Cooperation Framework Agreement**"), pursuant to which the Tencent Group agreed to, among others, provide game-related promotion and advertising services and we agreed to pay service fees to the Tencent Group. For details of other transactions under the Tencent Game Cooperation Framework Agreement, see "5. Publishing of Games on Tencent Platforms" and "6. Exclusive Publishing and Operation of Games by Tencent."

The material terms of the Tencent Game Cooperation Framework Agreement in relation to game-related promotion and advertising services are set forth as follows:

- *Nature.* The Tencent Group shall provide promotion and advertising services, including but not limited to user traffic acquisition, marketing, promotion and advertising which may be digital advertising on social media platforms operated by the Tencent group, such as QQ, QZone, and Weixin; or out-of-home advertising, such as on transportation media.
- *Term.* The term shall commence on the Listing Date and expire on December 31, 2022.
- *Fee arrangement and settlement.* We shall pay services fees to Tencent Group that may be calculated based on CPC, CPT or CPM, which shall be agreed in separate underlying orders.

Reasons for and benefits of the transaction

We typically engage promotion and advertising services at the early growth stage of a game, where we organise comprehensive marketing and promotion campaigns to increase the exposure of such game and to attract new game players right after its launch. According to the Frost & Sullivan Report, Tencent was among the top three advertising platforms in the PRC in 2019 as measured by revenue generated from the provision of advertising services. Taking into account the wide spectrum of platforms operated by the Tencent Group, we believe that obtaining such services from the Tencent Group will be able to enhance the marketing exposure of our games extensively. We therefore entered into the Tencent Game Cooperation Framework Agreement in relation to game-related promotion and advertising services.

Pricing policy

The service fees to be incurred by our Group to the Tencent Group shall be determined after arm's length negotiation between the parties with reference with the prevailing market rate for similar promotion and advertising activities and campaigns. Based on the fee quotes provided by other independent third-party service providers, we will be able to ensure that the fees to be incurred by our Group represents the prevailing market rate and on normal commercial terms that are no less favorable to our Company.

CONNECTED TRANSACTIONS

Historical transaction amounts

During the Track Record Period, the historical fees of the above transactions incurred by our Group to the Tencent Group are approximately as follows:

	For the year ended December 31,		
	2017	2018	2019
	(RMB in million)		
Service fees	<u>0.57</u>	<u>Nil</u>	<u>1.42</u>

Listing Rules implications

As the highest applicable percentage ratios for the fees payable by us to the Tencent Group will be less than 5% and the total consideration is less than HK\$3,000,000, the transactions under the Tencent Game Cooperation Framework Agreement in relation to game-related promotion and advertising services will be fully exempt from all the reporting, annual review, announcement, circular and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules pursuant to Rule 14A.76(1). If the parties agree to services fees in excess of HK\$3,000,000 or the highest applicable percentage ratio exceeds 5%, our Company will comply with the applicable reporting, annual review, announcement, circular and/or independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

We set out below a summary of the continuing connected transactions for our Group which are either (i) subject to the announcement and annual reporting requirements, but exempt from circular and independent shareholders' approval requirements; or (ii) subject to the reporting, annual review, announcement, circular and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

2. Game Cooperation with Perfect World Group

We entered into a game cooperation framework agreement with the Perfect World Group on June 10, 2020 (the "**Perfect World Game Cooperation Framework Agreement**"), pursuant to which Perfect World Group agreed to, among others, cooperate in the development and operation of certain game(s) with our Group in return for licensing fees and revenue sharing. For details of other transactions under the Perfect World Game Cooperation Framework Agreement, see "3. Perfect World Graphic Design Services" in this section. The precise scope of cooperation and payment terms shall be agreed between the relevant parties separately.

The material terms of the Perfect World Game Cooperation Framework Agreement in relation to game cooperation are set forth as follows:

- *Nature.* The Perfect World Group shall license certain IP rights on a non-exclusive basis to us to adapt and develop such IP to mobile or PC version of games, grant publishing rights of such games to us on an exclusive basis, and cooperate in the operation of such games.

CONNECTED TRANSACTIONS

- *Term.* The term shall commence on the Listing Date and expire on December 31, 2022.
- *Fee arrangement and settlement.* The fees payable by our Group for the cooperation in the development and operation of game(s) shall be calculated by the following basis:
 - fixed licensing fees;
 - revenue/profit sharing between the parties;
 - prepaid royalty between the parties; and/or
 - game performance bonus.

Reasons for and benefits of the transactions

The Perfect World Group owns certain exclusive IP rights which are suitable to be adapted into mobile or PC games and has a proven track record of producing top turn-based game with a loyal following of game players in the PRC. It was expected that Perfect World Group and our Group could leverage on each other's competitive advantages in game development. During the Track Record Period, we entered into a development and operation agreement in relation to *Fantasy Zhuxian* (夢幻誅仙) with the Perfect World Group on August 10, 2015 (as supplemented by supplemental agreements on October 1, 2016 and February 1, 2020, respectively), pursuant to which the Perfect World Group agreed to grant us a non-exclusive license to develop a mobile version of *Fantasy Zhuxian* (夢幻誅仙) and its exclusive right of operation. We have developed the licensed IPs and adapted the PC version of *Fantasy Zhuxian* (夢幻誅仙) into one of the pioneering real 3D turn-based mobile MMORPG. As of December 31, 2019, *Fantasy Zhuxian* (夢幻誅仙) has recorded an aggregate gross billing of approximately RMB3.3 billion since the date of its official launch on November 1, 2016.

Pricing policy

The licensing fees and/or revenue sharing to be incurred by our Group to the Perfect World Group shall be determined upon arm's length negotiation between the parties with reference to (i) the quality and popularity of the original IP; (ii) the prevailing fee structure and pricing terms of comparable IPs in the market; and (iii) the potential revenue and profitability from the game. Based on the historical licensing fees paid for original IPs from independent licensors and the fee quotes provided by other independent licensors of similar IPs, we will be able to ensure that the fees to be incurred to the Perfect World Group by our Group represents the prevailing market price and on normal commercial terms that are no less favourable to our Company.

CONNECTED TRANSACTIONS

Historical transaction amounts

During the Track Record Period, the historical values of the transactions incurred by us to Perfect World Group under the abovementioned agreement are approximately as follows:

	For the year ended December 31,		
	2017	2018	2019
	(RMB in million)		
Fixed licensing fees ⁽¹⁾	Nil	Nil	Nil
Revenue sharing	83.30	31.15	17.81
Total	83.30	31.15	17.81

Note:

(1) As the game was launched in November 2016, the agreed fixed licensing fees were incurred in 2016.

Proposed annual caps and their basis

The expected fees and/or revenue sharing to be incurred by our Group to the Perfect World Group under the Perfect World Game Cooperation Framework Agreement in relation to game cooperation, in respect for each of the three years ending December 31, 2022 will not exceed as follows:

	For the year ending December 31,		
	2020	2021	2022
	(RMB in million)		
Revenue sharing	9.50	6.50	5.30

When estimating the annual caps with respect of the revenue sharing to be incurred by our Group to the Perfect World Group under the Perfect World Game Cooperation Framework Agreement in relation to game cooperation, our Directors have taken into consideration the following factors:

- (i) the agreed fixed licensing fees for *Fantasy Zhuxian* (夢幻誅仙) were fully paid;
- (ii) the historical revenue sharing incurred by us to the Perfect World Group in relation to *Fantasy Zhuxian* (夢幻誅仙); and
- (iii) the anticipated gross billing of *Fantasy Zhuxian* (夢幻誅仙) given its popularity and its life cycle in its maturity stage. As the game reached the maturity stage, it is forecasted to contribute less revenue from 2020 to 2022.

Listing Rules implications

As the highest applicable percentage ratio for each of the three years ending December 31, 2022 in respect of the revenue sharing to be incurred by our Group to the Perfect World Group in relation to game cooperation under the Perfect World Game Cooperation Framework Agreement, is expected to be

CONNECTED TRANSACTIONS

0.1% or more but less than 5% on an annual basis, such transactions contemplated under the Perfect World Game Cooperation Framework Agreement will, upon Listing, be subject to the announcement requirement under Rule 14A.35 of the Listing Rules and the annual reporting requirement under Rules 14A.49 and 14A.71 of the Listing Rules, but exempt from circular and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules pursuant to Rule 14A.76(2) of the Listing Rules.

3. Perfect World Graphic Design Services

We entered into the Perfect World Game Cooperation Framework Agreement with Perfect World on June 10, 2020, pursuant to which we agreed to engage the Perfect World Group to provide for graphic design services of our games and we agreed to pay fees for such services provided by the Perfect World Group. For details of other transactions under the Perfect World Game Cooperation Framework Agreement, see "2. Game Cooperation with Perfect World Group." The precise scope of service and payment terms shall be agreed between the relevant parties separately.

The material terms of the Perfect World Game Cooperation Framework Agreement in relation to graphic design services are set out as follows:

- *Nature.* The Perfect World Group shall provide graphic design services to our Group in return for service fees.
- *Fee arrangement and settlement.* The fees payable by our Group for the graphic design services of our game(s) shall be calculated by the following basis:
 - hourly rate; and
 - quotation by items.

Reasons for and benefits of the transactions

Our Group outsources certain labor-intensive production and processing tasks, such as graphic, animation and motion design, to third-party studios during our game development process. The Perfect World Group has a specialized and stable team in design and graphic production, which can complement our in-house graphic design team in managing mass production work for our games. We believe that obtaining such services from the Perfect World Group will enhance our production efficiency and manage the production cost in our game development process.

Pricing policy

The service fees to be incurred by our Group to the Perfect World Group shall be determined after arm's length negotiation between the parties with reference to (i) the complexity of the design requirements; and (ii) the prevailing fee structure and pricing terms for similar services in the market. Based on fee quotes provided by other independent service providers, we will be able to ensure that the fees to be incurred to the Perfect World Group by our Group represents the prevailing market price and on normal commercial terms that are no less favourable to our Company.

CONNECTED TRANSACTIONS

Historical transaction amounts

During the Track Record Period, the historical fees of the above transactions incurred by our Group to Perfect World Group are approximately as follows:

	<u>For the year ended December 31,</u>		
	<u>2017</u>	<u>2018</u>	<u>2019</u>
	(RMB in million)		
Service fees	<u>9.03</u>	<u>4.08</u>	<u>Nil</u>

Proposed annual caps and their basis

The expected fees to be incurred by our Group to the Perfect World Group under the Perfect World Game Cooperation Framework Agreement in relation to graphic design services, in respect for each of the three years ending December 31, 2022 will not exceed as follows:

	<u>For the year ending December 31,</u>		
	<u>2020</u>	<u>2021</u>	<u>2022</u>
	(RMB in million)		
Service fees	<u>19.40</u>	<u>15.80</u>	<u>14.20</u>

When estimating the annual caps for expenses to be incurred by our Group to the Perfect World Group under the Perfect World Game Cooperation Framework Agreement in relation to graphic design services, our Directors have taken into consideration the following factors:

- (i) the historical amount of service fees incurred by our Group to the Perfect World Group;
- (ii) the scale of graphic design work our Group is nurturing together with the Perfect World Group; and
- (iii) the number of graphic design work that may have adaptation potentials.

Listing Rules implications

As the highest applicable percentage ratio for each of the three years ending December 31, 2022 in respect of the service fees to be incurred by our Group to the Perfect World Group in relation to graphic design services under the Perfect World Game Cooperation Framework Agreement, is expected to be 0.1% or more but less than 5% on an annual basis, such transactions contemplated under the Perfect World Game Cooperation Framework Agreement will, upon Listing, be subject to the announcement requirement under Rule 14A.35 of the Listing Rules and the annual reporting requirement under Rules 14A.49 and 14A.71 of the Listing Rules, but exempt from circular and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules pursuant to Rule 14A.76(2) of the Listing Rules.

CONNECTED TRANSACTIONS

4. Cloud Services of Tencent

We entered into a cloud services agreement with Tencent Cloud on March 30, 2016 (as supplemented by two supplemental agreements on June 13, 2016 and on January 1, 2020 respectively) (the “**Cloud Services Agreement**”), pursuant to which Tencent Cloud shall provide cloud services to us in the PRC and we shall pay fees for such services provided by Tencent Cloud. The material terms of the Cloud Services Agreement are set forth as follows:

- *Nature.* The provision of services include (i) cloud services ranging from cloud computing, data storage and CDN services, cloud security services, domain name services, mobility and communications services, video services and artificial intelligence products and/or services; and (ii) 24-hour/7 days per week after-sales services as well as assistance in addressing issues encountered during the use of Tencent Cloud services by our Group. The precise scope shall be agreed in separate underlying orders to be placed by us depending on our business needs through the online platform of Tencent Cloud.
- *Term.* The term was renewed from January 1, 2020 and shall expire on December 31, 2022.
- *Fee arrangement and settlement.* Service fees may be in the form of monthly or annual fixed fees or calculated by traffic volume; and method of payment may be pre-payment or invoicing, which shall be agreed in separate underlying orders. Volume discount on a progressive basis has been agreed between Tencent Cloud and our Group.
- *Termination.* The Cloud Services Agreement may be terminated upon mutual negotiations or upon the occurrence of an event of breach or dissolution of either party.

Reasons for and benefits of the transaction

We have migrated part of our servers and computing infrastructure to our suppliers of cloud services since 2015 and became one of the few game publishers in the PRC integrating cloud technology into our proprietary cloud-based server architecture. Through such cloud-based infrastructure, we can utilize diversified resources of our suppliers of cloud services, including Tencent Cloud for games we published through our distribution channels which offers unparalleled data storage reliability and stability in China. Leveraging on cloud services, part of our servers have become cloud-based, allowing a high degree of flexibility in managing the number of our servers on an as needed basis, which has largely saved our game infrastructure costs. In addition, we have substantial flexibility in our game operating capacities by scaling up or down the number of our servers effortlessly through cloud, as well as reliable data storage through establishing three sets of data backups, and enhanced batch processing capabilities in computing large amounts of user data at one time.

Tencent Cloud is a leading integrated service provider for a wide range of cloud services in the PRC and is able to provide reliable and cost-efficient services. Taking into account the wide spectrum of cloud services required for our operations, we believe that procuring such services from Tencent Cloud among our other suppliers of cloud services will be able to reduce our reliance on one single supplier. We therefore entered into the Cloud Services Agreement to govern any cloud services to be provided by Tencent Cloud to us.

CONNECTED TRANSACTIONS

Pricing policy

Before entering into any separate underlying orders under the Cloud Services Agreement, we will assess our needs, evaluate the quality of cloud services of different service providers and compare the rates of services fees proposed by Tencent Cloud with the rates offered by other independent competent service providers. Based on the fee quotes provided by other independent service providers, we will be able to ensure that the services fees to be incurred by our Group to Tencent Cloud represents the prevailing market price and on normal commercial terms that are no less favorable to our Company. Based on this agreement, we have enjoyed and will continue to enjoy a volume discount for the cloud services that are engaged in a calendar month on a progressive basis. We will only place an underlying order with Tencent Cloud when such order is in the best interests of our Company and our Shareholders as a whole.

Historical transaction amounts

During the Track Record Period, the historical fees of the above transactions incurred by us to Tencent Cloud, are approximately as follows:

	<u>For the year ended December 31,</u>		
	<u>2017</u>	<u>2018</u>	<u>2019</u>
	(RMB in million)		
Service fees	<u>3.25</u>	<u>3.98</u>	<u>3.39</u>

Proposed annual caps and their basis

The expected service fees to be incurred to Tencent Cloud under the Cloud Services Agreement, in respect for each of the three years ending December 31, 2022 will not exceed as follows:

	<u>For the year ending December 31,</u>		
	<u>2020</u>	<u>2021</u>	<u>2022</u>
	(RMB in million)		
Service fees	<u>4.30</u>	<u>4.40</u>	<u>4.80</u>

When estimating the annual caps of service fees to be incurred by our Group to Tencent Cloud under the Cloud Services Agreement, our Directors have taken into consideration the following factors:

- (i) the historical fees incurred by our Group to Tencent Cloud in relation to the cloud services procured; and
- (ii) the anticipated procurement needs for cloud services and usage allocated to Tencent Cloud among our cloud services suppliers, as we continue to use such services in our cloud-based infrastructure.

CONNECTED TRANSACTIONS

Listing Rules implications

As the highest applicable percentage ratio for each of the three years ending December 31, 2022 in relation to the transactions under the Cloud Services Agreement is expected to be 0.1% or more but less than 5% on an annual basis, such transactions contemplated under the Cloud Services Agreement will, upon Listing, be subject to the announcement requirement under Rule 14A.35 of the Listing Rules and the annual reporting requirement under Rule 14A.49 and 14A.71 of the Listing Rules, but exempt from circular and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules pursuant to Rule 14A.76(2) of the Listing Rules.

5. Publishing of Games on Tencent Platforms

We have entered into the Tencent Game Cooperation Framework Agreement with the Tencent Group on June 22, 2020, pursuant to which, among others, we shall publish and operate certain games on platforms operated by Tencent Group in the PRC, such as Tencent MyApp (騰訊應用寶). For details of other transactions under the Tencent Game Cooperation Framework Agreement, see "1. Tencent Promotion and Advertising Services" and "6. Exclusive Publishing and Operation of Games by Tencent."

The material terms of the Tencent Game Cooperation Framework Agreement in relation to the publishing of games on platforms operated by Tencent are set forth as follows:

- *Nature.* We shall engage Tencent Group as a distribution channel, such that our games are published on platforms operated by Tencent Group, such as Tencent MyApp (騰訊應用寶).
- *Exclusivity.* For games that we publish, we typically engage third party distribution channels, including the Tencent Group. During the Track Record Period, the Tencent Group did not have exclusive rights to publish and operate such games in the PRC.
- *Pricing right.* Our Company has the right to determine the pricing of the virtual items in the games it publishes.
- *Fee arrangement and settlement.* Our expense arising out of these games as the game developer and publisher shall be calculated based on monthly commissions at a fixed proportion, which shall be agreed in separate underlying agreements.

Reasons for and benefits of the transactions

Where we publish our own games, we typically engage different distribution channels to achieve a better market penetration in the publishing process, enabling our games to reach the paying players. According to the Frost & Sullivan Report, Tencent MyApp (騰訊應用寶) is the largest first-tier game distribution channel in China by MAU and had approximately 280 million MAU in 2019. As Tencent MyApp (騰訊應用寶) is a leading market player in this regard, we can take advantage of Tencent's extensive reach to android users in the PRC and game player base via its Tencent MyApp (騰訊應用寶), so as to reach out to and attract an enormous number of paying players, thereby enhancing the monetization capabilities of our games.

CONNECTED TRANSACTIONS

Pricing policy

The commissions to be incurred by our Group to Tencent Group in relation to the publishing of games on Tencent platforms shall be determined after arm's length negotiation between the parties with reference to (i) the prevailing market rate; and (ii) the standard commission rates of the Tencent Group for game publishers, including our Company. Based on the fee quotes provided by other Independent Third Party game publishers, we will be able to ensure that the commissions to be incurred by our Group to Tencent Group represents the prevailing market rate and on normal commercial terms that are no less favourable to our Company.

Historical transaction amounts

Given the continuing connected transactions in relation to the publishing of our games on various platforms operated by the Tencent Group as our distribution channel were and will all be made with the Tencent Group, all such transactions in relation to the third-party publishing services of our games shall be aggregated in accordance with Rule 14A.81 of the Listing Rules.

During the Track Record Period, the historical commissions incurred by our Group in relation to the publishing of our games on platforms operated by Tencent Group on an aggregate basis are approximately as follows:

	For the year ended December 31,		
	2017	2018	2019
	(RMB in million)		
Historical commissions ⁽¹⁾	16.83	8.56	1.90

Note:

- (1) During the Track Record Period, four of our games were published on platforms operated by the Tencent Group. Among them, one was in the recession stage and one ceased its operation as of the Latest Practicable Date.

Proposed annual caps and their basis

The expected commissions to be incurred by our Group to the Tencent Group under the Tencent Game Cooperation Framework Agreement in relation to the publishing of games on platforms operated by Tencent Group, in aggregate, in respect for each of the three years ending December 31, 2022 will not exceed as follows:

	For the year ending December 31,		
	2020	2021	2022
	(RMB in million)		
Game I	0.10	Nil	Nil
Game II	1.80	0.90	0.40
Total	1.90	0.90	0.40

CONNECTED TRANSACTIONS

When estimating the annual caps of the commissions to be incurred by our Group to the Tencent Group, our Directors have taken into consideration the following factors:

- (i) the historical commissions paid in relation to each of the games to Tencent Computer; and
- (ii) the anticipated gross billing of the existing transactions given the popularity and life cycles of the games. In respect of *Game I*, it reached its recession stage; in respect of *Game II*, it reached its maturity stage, as of December 31, 2019. As *Game II* reached the maturity stage, and will subsequently reach the recession stage, it is forecasted to contribute less revenue from 2020 to 2022.

Listing Rules implications

As the highest applicable percentage ratio for each of the three years ending December 31, 2022 in respect of the commissions to be incurred to Tencent Group in relation to the publishing of games on Tencent platforms under the Tencent Game Cooperation Framework Agreement is expected to be 0.1% or more but less than 5% on an annual basis, such transactions contemplated under the Tencent Game Cooperation Framework Agreement will, upon Listing, be subject to the announcement requirement under Rule 14A.35 of the Listing Rules and the annual reporting requirement under Rules 14A.49 and 14A.71 of the Listing Rules, but exempt from circular and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules pursuant to Rule 14A.76(2) of the Listing Rules.

6. Exclusive Publishing and Operation of Games

We have entered into the Tencent Game Cooperation Framework Agreement with the Tencent Group on June 22, 2020, pursuant to which, among others, the Tencent Group shall publish, operate and promote certain games that we have developed in designated regions on an exclusive basis. For details of other transactions under the Tencent Game Cooperation Framework Agreement, see "1. Tencent Promotion and Advertising Services" and "5. Publishing of Games on Tencent Platforms."

The material terms of the Tencent Game Cooperation Framework Agreement in relation to the exclusive publishing and operation of games are set forth as follows:

- *Nature.* We shall engage the Tencent Group to publish, operate and promote certain games that we self-developed in designated regions.
- *Exclusivity.* The Tencent Group shall have the exclusive rights to publish and operate our games in designated regions.
- *Fee arrangement and settlement.* The fees incurred by the Tencent Group for the exclusive publishing and operation of games shall be calculated by the following basis:
 - fixed licensing fees;
 - revenue/profit sharing;
 - prepaid revenue/profit sharing between the parties; and/or
 - game performance bonus.

CONNECTED TRANSACTIONS

- *Joint operation arrangement.* We agreed to participate in certain aspects of the operation of the games licensed to the exclusive publishing and operation of the Tencent Group, which includes external maintenance, customer service (such as, attending to game enquiries, in-game speech and image reviews), production of graphics, theme songs and advertising images, operation of the users' community, marketing and public relations.

Reasons for and benefits of the transactions

Publishing our games in cooperation with third-party game publishers is our main means of game publishing, and we have the commercial liberty to engage third-party publishers to maximise our earnings from each game that we self-developed. As Tencent is a leading mobile game publisher in the PRC that operates a game platform to a large number of high-paying game players, our collaborations allow us to leverage on the current market information provided by Tencent and adapt our games to the prevailing preference of the market. As a result, we have been able to enhance the popularity and the commercial potential of the games.

Games that are published and operated by the Tencent Group typically demonstrate Tencent's strong confidence and endorsement of the games. We generally enter into such agreements with game publishers, including the Tencent Group at an early stage of game development process in order to optimize marketing effectiveness of our games. As a result, it is expected that our games will be better received by players from such collaboration with the Tencent Group, which facilitates word-of-mouth marketing. As of December 31, 2019, we had collaborated with the Tencent Group to publish four AAA titles, namely *Loong Craft* (六龍爭霸), *Fantasy Zhuxian* (夢幻誅仙), *King of Kings* (萬王之王3D) and *Dragon Raja* (龍族幻想), all of which had achieved widespread acceptance among game players in the PRC.

Pricing policy

The pricing of the transactions will be determined with reference to (i) the test results of our games based on Tencent's internal evaluation system with regards to the nature, quality and the expected popularity in the market; (ii) potential user traffic and gross billings arising from the platforms operated by the Tencent Group; and (iii) the fee arrangements at the prevailing terms in the market. Based on the fee quotes provided by other independent service providers, we will be able to ensure that the fees and revenue to be incurred by the Tencent Group to our Group represent the prevailing market price and on normal commercial terms that are no less favorable to our Company.

The fee arrangements of such transactions may consist of any of the following: (i) fixed licensing fees that may be paid by separate instalments that are hedged against the progression of the commercial operation of the game; (ii) revenue sharing at a fixed proportion; and (iii) initial prepaid fees that shall be deductible for the subsequent revenue sharing. During the Track Record Period, these transactions were negotiated separately at arm's length, having taken into account the aforementioned considerations holistically; in particular, only one of the four games involved a fee structure of a fixed licensing fees and revenue sharing.

CONNECTED TRANSACTIONS

Historical transaction amounts

Given the continuing connected transactions in relation to the exclusive publishing and operation of four of our games were and will be all made with the Tencent Group, all such transactions of revenue nature shall be aggregated in accordance with Rule 14A.81 of the Listing Rules.

During the Track Record Period, the historical values of the above transactions incurred by the Tencent Group to us on an aggregate basis are approximately as follows:

	For the year ended December 31,		
	2017	2018	2019
	(RMB in million)		
Fees incurred by the Tencent Group to our Group (in the form of revenue sharing) ⁽¹⁾	514.73	350.95	585.69

Note:

(1) During the Track Record Period, four of our games were exclusively published and operated by the Tencent Group in the PRC. Among them, *Game A* was launched in October 2015; *Game B* was launched in November 2016; *Game C* was launched in August 2018; and *Game D* was launched in July 2019. The agreed fixed licensing fees with respect to *Game B* were incurred by the Tencent Group in 2016.

Proposed annual caps and their basis

The expected transaction amounts for such continuing connected transactions and two new game projects in our pipeline with the Tencent Group, on a standalone and aggregate basis, in respect for each of the three years ending December 31, 2022 will not exceed as follows:

	For the year ended December 31,		
	2020	2021	2022
	(RMB in million)		
<i>Game A</i> ⁽¹⁾	10.70	6.20	4.00
<i>Game B</i> ⁽¹⁾	50.40	34.30	28.30
<i>Game C</i> ⁽¹⁾	28.40	11.10	4.40
<i>Game D</i> ⁽¹⁾⁽²⁾	272.40 ⁽³⁾	123.20	40.00
<i>Game E</i> ⁽⁴⁾	448.10	378.30	244.20
<i>Game F</i> ⁽⁵⁾	157.00	367.60	206.70
<i>Game G</i> ⁽⁶⁾	Nil	435.80	281.80
<i>Project A</i> ⁽⁷⁾	Nil	Nil	417.70
<i>Project B</i> ⁽⁸⁾	Nil	Nil	390.80
Total	967.00	1,356.50	1,617.90

Notes:

(1) For footnote (1), see note (1) above.
 (2) *Game D* was launched in July 2019 in the PRC and is expected to launch in Japan in April 2020. The exclusive publishing and operation of *Game D* in the PRC and Japan were licensed to Tencent Computer and Sixjoy respectively.

CONNECTED TRANSACTIONS

- (3) The annual cap for *Game D* in respect of the year ended December 31, 2020 includes an agreed fixed licensing fee of RMB10.50 million.
- (4) *Game E* is expected to be launched in the third quarter in 2020 and shall be exclusively published and operated by Tencent Computer in the PRC based on a separate underlying agreement we have entered into with the Tencent Group on March 27, 2020.
- (5) *Game F* is expected to be launched in the fourth quarter in 2020 and shall be exclusively published and operated by Tencent Computer in the PRC based on a separate underlying agreement we have entered into with the Tencent Group on March 27, 2020.
- (6) *Game G* is expected to be launched in the first quarter in 2021 and shall be exclusively published and operated by Tencent Computer in the PRC based on a separate underlying agreement we have entered into with the Tencent Group on March 27, 2020.
- (7) *Project A* is currently in the game development stage, which is expected to launch in the first quarter in 2022. See “Business — Our Game Pipeline.”
- (8) *Project B* is currently in the game development stage. The terms of the IP licensing agreement in relation to *Project B* is confidential. See “Business — Our Game Pipeline.”

When estimating the annual caps of the above transactions to be incurred by the Tencent Group to our Group, our Directors have taken into consideration the following factors:

- (i) the historical amount of licensing fees and revenue sharing of the existing games incurred by the Tencent Group to our Group;
- (ii) the anticipated gross billings of the existing games in operation given the popularity and life cycles of such games that have been signed with the Tencent Group. In particular, *Game A*, *Game B*, *Game C* and *Game D* were launched in the PRC in October 2015, November 2016, August 2018 and July 2019 respectively; and all of which were well into the maturity stage as of the Latest Practicable Date and thus are forecasted to contribute less revenue from 2020 to 2022 after their initial surge in gross billings upon their respective launches.; and
- (iii) the anticipated gross billings of the new games based on (a) the evaluation done with the Tencent Group in relation to the respective projected performance in gross billings of the games; and (b) an expected growth in the aggregate gross billings of games operated and published by the Tencent Group, given the assumed growth in our business and our operational capacity. In particular, *Game D* is expected to launch in Japan in April 2020, while *Game E*, *Game F* and *Game G* are expected to be launched in the PRC in third quarter in 2020, the fourth quarter in 2020 and first quarter in 2021 respectively. Typically, the early growth stage of our games ranges from two to eight months, during which the games build up the player base and achieve market coverage before entering into the maturity stage where the gross billings generated therefrom remain stable until they reach the recession stage.

Listing Rules implications

As the highest applicable percentage ratio for each of the three years ending December 31, 2022 in respect of the fees and/or revenue to be incurred by the Tencent Group in relation to the exclusive publishing and operation of our games under the Tencent Game Cooperation and Services Framework Agreement is expected to exceed 5% on an annual basis, such transactions contemplated under the Tencent Game Cooperation and Services Framework Agreement will, upon Listing, constitute continuing connected transactions of our Company subject to the annual reporting requirement under Rules 14A.49,

CONNECTED TRANSACTIONS

14A.71 and 14A.72 of the Listing Rules, the announcement requirement under Rules 14A.35 of the Listing Rules and the independent Shareholders' approval requirement under Rules 14A.36 of the Listing Rules.

7. Contractual Arrangements

Background

As disclosed in the section headed "Contractual Arrangements" in this prospectus, due to regulatory restrictions on foreign ownership in mobile game business, we cannot directly or indirectly, hold any equity interest in our Consolidated Affiliated Entities, which hold certain licenses and permits required for the operations of our business. As a result, our Group has entered into the Contractual Arrangements with Tianjin Loong and its Registered Shareholders so that we can conduct our business operations indirectly in the PRC through our Consolidated Affiliated Entities while complying with applicable PRC laws and regulations. The Contractual Arrangements, as a whole, are designed to provide our Group with effective control over the financial and operational policies of our Consolidated Affiliated Entities, to the extent permitted by PRC laws and regulations, which enable us to, among others, (i) receive substantially all of the economic benefits from our Consolidated Affiliated Entities in consideration for the services provided by Beijing Fantasy Mermaid to our Consolidated Affiliated Entities; (ii) exercise effective control over our Consolidated Affiliated Entities; and (iii) hold an exclusive option to acquire all or part of the equity interests and/or assets in Tianjin Loong when and to the extent permitted by PRC laws and regulations.

The Contractual Arrangements consist of a series of agreements, including (i) Exclusive Business Cooperation Agreement, (ii) Exclusive Option Agreement, (iii) Equity Pledge Agreement and (iv) Powers of Attorney, each of which is an integral part of the contractual arrangements. For detailed terms of these agreements, see "Contractual Arrangements."

Listing Rules implications

The transactions contemplated under the Contractual Arrangements constitute continuing connected transactions of our Company under the Listing Rules upon Listing as certain parties of the Contractual Arrangements, namely Beijing Loong, Perfect World and Linzhi Lichuang, are connected persons of our Group.

Our Director (including the independent non-executive Directors) are of the view that the Contractual Arrangements and the transactions contemplated therein are fundamental to our Group's legal structure and business, that such transactions have been and will be entered into in the ordinary and usual course of business of our Group, are on normal commercial terms and are fair and reasonable and in the interests of our Company and our Shareholders as a whole. 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 any of our Consolidated Affiliated Entities and any member of our Group (the "**New Intergroup Agreements**" and each of them, a "**New Intergroup Agreement**") (which are (a) solely restricted to matters that are contemplated under the Contractual Arrangements; and (b) narrowly tailored to achieve our Company's business purposes and minimizing the potential for conflict with the relevant PRC laws and regulations) technically constitute continuing connected transactions under Chapter 14A of the Listing Rules, our Directors consider that, it would be unduly burdensome and

CONNECTED TRANSACTIONS

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.

INTERNAL CONTROL MEASURES

Our Group has an independent internal control, accounting and financial management system as well as an independent finance department which makes financial decisions according to our Group's own business needs. See "Relationship with Our Controlling Shareholders — Independence from Our Controlling Shareholders" and "Relationship with the Tencent Group — Historical Transaction with the Tencent Group" for further details of the independence of our Group.

In order to ensure that the terms under relevant agreements for the continuing connected transactions are fair and reasonable, and no less favorable to us than terms available to or from Independent Third Parties, and the connected transactions are carried out under normal commercial terms, we will adopt the following internal control procedures upon the Listing:

- we will adopt and implement a management system on connected transactions and our Board and the various internal departments of our Company (including the finance and legal departments) will be responsible for the control and daily management in respect of the continuing connected transactions;
- our Board and various internal departments of our Company (including the finance and legal departments) will be jointly responsible for evaluating the terms under relevant agreements for the continuing connected transactions, in particular, the fairness of the pricing policies and annual caps under each transaction;
- our Board and various internal departments of our Company will regularly monitor the fulfillment status and the transaction updates under the relevant agreements. In addition, the management of our Company will also regularly review the pricing policies of the relevant agreements;
- the Board has established the risk management committee, comprising of Mr. Ding Zhiping (as chairman), Mr. Li Qing and Mr. Zhu Lin. The risk management committee will consider the connected transactions requiring approval from the Board and/or Shareholders' general meeting, and provide opinion thereof to the Board; and
- our independent non-executive Directors and auditor will conduct annual review of the continuing connected transactions under the agreements and provide annual confirmation to ensure that, in accordance with the Listing Rules, the transactions are conducted in accordance with the terms of the agreements, on normal commercial terms that are no less favourable to our Company and in accordance with the pricing policy.

CONNECTED TRANSACTIONS

WAIVER APPLICATIONS

Continuing connected transactions with the Tencent Group and the Perfect World Group

In respect of the continuing connected transactions in relation to 2. Game Cooperation with Perfect World Group, 3. Perfect World Graphic Design Services, 4. Cloud Services of Tencent, and 5. Publishing of Games on Tencent Platforms, the highest applicable percentage ratios calculated for the purpose of Chapter 14A of the Listing Rules for the three years ending December 31, 2022 are expected to be more than 0.1% but less than 5% on an annual basis. Accordingly, such continuing connected transactions are subject to the annual reporting requirement under Rules 14A.49 and 14A.71 of the Listing Rules and the announcement requirement under Rule 14A.35 of the Listing Rules.

In respect of the continuing connected transactions in relation to 6. Exclusive Publishing and Operation of Games by Tencent, the highest applicable percentage ratio calculated for the purpose of Chapter 14A of the Listing Rules for the three years ending December 31, 2022 is expected to be more than 5% on an annual basis. Accordingly, such continuing connected transactions are subject to the annual reporting requirement under Rules 14A.49 and 14A.71 of the Listing Rules, the announcement requirement under Rule 14A.35 of the Listing Rules and the independent Shareholders' approval requirement under Rule 14A.36 of the Listing Rules.

As the above continuing connected transactions are expected to be carried out on a recurring basis, our Directors consider that strict compliance with the aforesaid announcement and independent Shareholders' approval requirements will be impractical, and such requirements will lead to unnecessary administrative costs and create an onerous burden on us. Accordingly, we have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted, pursuant to Rule 14A.105 of the Listing Rules, waivers from strict compliance with the announcement and independent Shareholders' approval requirements under Rules 14A.35 and 14A.36 of the Listing Rules in relation to 6. Exclusive Publishing and Operation of Games by Tencent, and from strict compliance with the announcement requirement under Rule 14A.35 of the Listing Rules in relation to 2. Perfect World Game Cooperation, 3. Perfect World Graphic Design Services, 4. Cloud Services of Tencent, and 5. Publishing of Games on Tencent Platforms, provided that the total amount of transactions for each of the three years ending December 31, 2022 will not exceed the relevant proposed annual caps as set out in this section. The independent non-executive Directors and auditors of our Company will review whether the transactions under the above continuing connected transactions have been entered into pursuant to the principal terms and pricing policies under the relevant agreements as disclosed in this section. The confirmation from our independent non-executive Directors and our auditors will be disclosed annually according to the requirements of the Listing Rules. Apart from the announcement, circular, independent Shareholders' approval requirements for which waivers have been sought and granted, our Group will comply with the relevant requirements under Chapter 14A of the Listing Rules.

Contractual Arrangements

In view of the contractual arrangements, we have applied for, and the Hong Kong 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) the

CONNECTED TRANSACTIONS

requirement of limiting the term of the Contractual Arrangements to three years or less under Rule 14A.52 of the Listing Rules, for so long as our Shares are listed on the Hong Kong Stock Exchange subject to the following conditions:

(i) *No change without independent non-executive Directors' approval.*

No changes to the Contractual Arrangements will be made without the approval of our independent non-executive Directors.

(ii) *No change without independent Shareholders' approval.*

Save as described in paragraph (iv) below, no changes to 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 (v) below) will however continue to be applicable.

(iii) *Economic benefits flexibility.*

The Contractual Arrangements shall continue to enable our Group to receive the economic benefits derived by our Consolidated Affiliated Entities through: (i) our Group's option to the extent permitted under PRC laws and regulations, to acquire, all or part of the entire equity interests and/or assets in Tianjin Loong at the lowest possible amount permissible under the applicable PRC laws and regulations; (ii) the business structure under which the net 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 Beijing Fantasy Mermaid under the Exclusive Business Cooperation Agreement; and (iii) our Group's right to control the management and operation of, as well as, in substance, all of the voting rights of Tianjin Loong.

(iv) *Renewal and reproduction.*

On the basis that the Contractual Arrangements provide an acceptable framework for the relationship between our Company and its subsidiaries in which our Company has direct shareholding, on one hand, and our Consolidated Affiliated Entities, on the other hand, that framework may be renewed and/or reproduced upon the expiry of the existing arrangements, or, in relation to any existing or new wholly foreign owned enterprise or operating company (including branch company) engaging in the same business as that of our Group which our Group might wish to establish when justified by business expediency, without obtaining the approval of the Shareholders, on substantially the same terms and conditions as the existing Contractual Arrangements. The directors, chief executive or substantial shareholders of any existing or new wholly foreign-owned enterprise or operating company (including branch company) engaging in the same business as that of our Group which our Group may establish will, upon renewal and/or reproduction of the Contractual Arrangements, however be treated as connected persons of our Company and transactions between these connected persons and our Company other than those under similar Contractual Arrangements shall comply with Chapter 14A of the Listing Rules. This condition is subject to relevant PRC laws, regulations and approvals.

CONNECTED TRANSACTIONS

(v) *Ongoing reporting and approvals.*

Our Group will disclose details relating to the Contractual Arrangements on an ongoing basis as follows:

- The Contractual Arrangements in place during each financial period will be disclosed in the annual reports and accounts of our Company in accordance with the relevant provisions of the Listing Rules.
- Our independent non-executive Directors will review the Contractual Arrangements annually and confirm in our Group's annual report and accounts for the relevant year that (i) the transactions carried out during such year have been entered into in accordance with the relevant provisions of the Contractual Arrangements; (ii) no dividends or other distributions have been made by Tianjin Loong to the Registered Shareholders which are not otherwise subsequently assigned or transferred to our Group; and (iii) the Contractual Arrangements and if any, any new contracts entered into, renewed or reproduced between our Group and Tianjin Loong during the relevant financial period under paragraph (iv) above are fair and reasonable, or advantageous, so far as our Group is concerned and in the interests of the 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 our Directors with a copy to the Hong Kong 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 Tianjin Loong to the Registered Shareholders 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," each of our Consolidated Affiliated Entities will be treated as our Company's subsidiary, but at the same time, the directors, chief executives or substantial shareholders of each of our Consolidated Affiliated Entities and their respective associates will be treated as connected persons of our Company, and transactions between these connected persons and our Group, other than those under the Contractual Arrangements, will be subject to requirements under Chapter 14A of the Listing Rules.
- Our Consolidated Affiliated Entities will undertake that, for so long as the Shares are listed on the Hong Kong 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.

In addition, we have applied to the Stock Exchange for, and the Hong Kong 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 any New Intergroup Agreements (as defined above) pursuant to Rule 14A.105 of the Listing Rules; (ii) setting an annual cap for the transactions contemplated under any New Intergroup Agreements under Rule 14A.53 of the Listing Rules; and (iii) the requirement of limiting the term of any New Intergroup Agreements to three years or less under Rule 14A.52 of the Listing Rules, for so long as our Shares are listed on the Hong Kong Stock Exchange. We will comply with the applicable requirements under the Listing Rules and will immediately inform the Hong Kong Stock Exchange if there are any changes to these continuing connected transactions. If there is any change to the terms of the Contractual Arrangements or our

CONNECTED TRANSACTIONS

Group enter into any new agreement with any of its connected persons, our Group must fully comply with the relevant requirements under Chapter 14A of the Listing Rules unless it apply for and obtain a separate waiver from the Hong Kong Stock Exchange.

New Transactions amongst Our Consolidated Affiliated Entities and Our Company

Given that the financial results of our Consolidated Affiliated Entities will be consolidated into our financial results and the relationship between our Consolidated Affiliated Entities and our Company, the Contractual Arrangements that may be entered into between each of our Consolidated Affiliated Entities and our Company in the future will also be exempt from the “continuing connected transactions” provisions of the Listing Rules.

CONFIRMATION FROM OUR DIRECTORS AND THE SOLE SPONSOR

Having taken into account the information set out above, our Directors (including our independent non-executive Directors), are of the view that the non-exempt continuing connected transactions have been and will be entered into in the ordinary and usual course of our Group’s business and are based on normal commercial terms or better that are fair, reasonable and in the interests of our Group and our Shareholders as a whole, and that the proposed annual caps for the non-exempt continuing connected transactions are fair, reasonable and in the interests of our Group and our Shareholders as a whole. Further, the Directors are also of the view that with respect to the terms of the Contractual Arrangements, which is of a duration of longer than three years, it is a justifiable and normal business practice for the Contractual Arrangements of this type to be of such duration.

The Sole Sponsor has (i) reviewed the relevant documents and information provided by our Group, and (ii) participated in the due diligence and discussion with the management of our Company. Based on the above, the Sole Sponsor is of the view that the non-exempt continuing connected transactions set out above have been and will continue to be carried out in the ordinary and usual course of business of our Company and on normal commercial terms, and are fair and reasonable and in the interests of our Company and our Shareholders as a whole; and that the proposed annual caps of the non-exempt continuing connected transactions are fair and reasonable and in the interests of our Company and our Shareholders as a whole. Further, the Sole Sponsor is also of the view that with respect to the terms of the Contractual Arrangements, which is of a duration of longer than three years, it is a justifiable and normal business practice for the Contractual Arrangements of this type to be of such duration.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Upon the Listing, the Board will consist of seven Directors, comprising 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, while our senior management is responsible for the day-to-day management of our business.

The following table sets out certain information about our Directors:

Name	Age	Position(s)	Roles and responsibilities	Time of joining our Group	Date of appointment as Director	Relationship with other Directors and senior management
Executive Directors						
Mr. Li Qing (李青)	45	Chairman, executive Director and chief executive officer	Overall management, decision-making and strategy planning	September 2014	January 20, 2020	Nil
Mr. Bai Wei (白璿)	42	Executive Director and the general manager of program center (程序中心)	Assisting in overall management, strategic planning and decision-making of products research and development	January 2015	March 4, 2020	Nil
Non-executive Directors						
Ms. Liu Ming (劉銘)	47	Non-executive Director	Supervising the management of our Group	March 2018	March 4, 2020	Nil
Mr. Yan Xinguang (閆新廣)	46	Non-executive Director	Supervising the management of our Group	July 2018	March 4, 2020	Nil
Independent non-executive Directors						
Mr. Ge Xuan (葛旋)	48	Independent non-executive Director	Supervising our Board and providing independent judgement	June 2020	June 24, 2020	Nil
Mr. Zhu Lin (朱霖)	46	Independent non-executive Director	Supervising our Board and providing independent judgement	June 2020	June 24, 2020	Nil
Mr. Ding Zhiping (丁治平)	60	Independent non-executive Director	Supervising our Board and providing independent judgement	June 2020	June 24, 2020	Nil

DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Li Qing (李青), aged 45, is an executive Director, the chairman of the Board and the chief executive officer of our Company. He is responsible for the overall management, decision-making and strategy planning of our Group.

Mr. Li is our founder and has approximately 23 years' experience in game development. Prior to founding our Group, Mr. Li served as a chief design officer of e-Pie Entertainment & Technology Corporation (Beijing) (北京市歡樂億派科技有限公司) from August 2000 to March 2004, during which he was responsible for game development. Until September 2014, he served as a chief development officer in the Perfect World Group, during which he was responsible for game development. Mr. Li founded our Group in September 2014. He currently also holds directorships in several subsidiaries within our Group.

Mr. Li obtained a bachelor's degree in physics and a master's degree in nuclear energy science and engineering from Tsinghua University (清華大學) in Beijing in July 1997 and June 2000, respectively. In addition, Mr. Li also obtained an executive master of business administration from Cheung Kong Graduate School of Business (長江商學院) in Beijing in May 2010.

Mr. Bai Wei (白瑋), aged 42, is an executive Director and the general manager of program center (程序中心) of our Company. He is primarily responsible for assisting in the overall management, strategic planning and decision-making of products research and development of our Group.

Mr. Bai has over 17 years of experience in the information technology and game industry. From April 2004 to January 2015, Mr. Bai was a senior management member in the Perfect World Group. Mr. Bai joined our Group in January 2015. Since March 2018, he has been a director of Tianjin Loong, one of the subsidiaries within our Group.

Mr. Bai obtained a bachelor's degree and a master's degree in electrical engineering from Tsinghua University (清華大學) in Beijing in September 1999 and January 2002, respectively.

Non-executive Directors

Ms. Liu Ming (劉銘), aged 47, is a non-executive Director of our Company. She is primarily responsible for supervising the management of our Group.

Ms. Liu has extensive experience in the game industry. Before joining Tencent Games, she held executive positions in two other gaming companies. Ms. Liu has been working at Tencent Games, an online game platform operated by Tencent since November 2013, and currently serves as a vice president, overseeing the domestic and overseas distribution of mobile games of Tencent Games. Since March 2018, she has been a director of Tianjin Loong, one of the subsidiaries within our Group.

Ms. Liu obtained a master's degree in pedagogy from East China Normal University (華東師範大學) in Shanghai in July 1998.

Mr. Yan Xinguang (閆新廣), aged 46, is a non-executive Director of our Company. He is primarily responsible for supervising the management of our Group.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Yan has been working at the Perfect World Group since April 2004 and currently serves as chairman at the Perfect World Group. Since July 2018, he has been a director of Tianjin Loong, one of the subsidiaries within our Group.

Mr. Yan obtained a bachelor's degree in auditing from Zhengzhou University (鄭州大學) in Zhengzhou in July 1997 and a master's degree in applied economics from Nankai University (南開大學) in Tianjin in December 2008. Mr. Yan is accredited as an intermediate accountant (中級會計師) by the Ministry of Finance of the PRC in May 2001 and has obtained the Board Secretary Qualification from the Shenzhen Stock Exchange (深圳證券交易所) in July 2014.

Independent non-executive Directors

Mr. Ge Xuan (葛旋), aged 48, is our independent non-executive Director. He is primarily responsible for supervising our Board and providing independent judgement.

Mr. Ge has extensive experience in the finance industry. Since June 2013, Mr. Ge has been serving as a director and general manager at Minsheng Tonghui Asset Management Co., Ltd. (民生通惠資產管理有限公司). From July 1993 to September 1998, he held different management positions in Guosen Securities Co., Ltd. (國信證券股份有限公司) (a company listed on the Shenzhen Stock Exchange, stock code: 002736). From January 1999 to June 2000, he served as director of the trading and investment department and an assistant to the president at Bosera Asset Management Co., Limited (博時基金管理有限公司). From July 2000 to March 2002, he was an assistant to the president, director of the trading department and a member of the investment decision committee (投資決策委員會) and risk control committee at Penghua Fund Management Co., Ltd. (鵬華基金管理有限公司). From August 2002 to December 2003, he served as an investment director at Gold State Securities Co. Ltd. (金元證券股份有限公司). From December 2003 to October 2010, he served as a vice president and director at Huaxi Securities Co., Ltd. (華西證券股份有限公司) (a company listed on the Shenzhen Stock Exchange, stock code: 002926). From September 2009 to June 2013, he held different management positions in Minsheng Life Insurance Co., Ltd. (民生人壽保險股份有限公司).

Mr. Ge obtained a bachelor's degree in international trade from Shenzhen University (深圳大學) in Shenzhen in June 1993 and an executive master of business administration from Cheung Kong Graduate School of Business (長江商學院) in Beijing in September 2010.

Mr. Zhu Lin (朱霖), aged 46, is our independent non-executive Director. He is primarily responsible for supervising our Board and providing independent judgement.

Mr. Zhu has extensive experience in accounting and financial consulting. From October 2003, he served as a senior manager at the mergers and acquisitions department of PricewaterhouseCoopers Consulting (Shenzhen) Co., Ltd. (Beijing Branch) (普華永道諮詢(深圳)有限公司北京分公司). Since October 2015, Mr. Zhu has been serving as a partner of Beijing Legendhouse CPAs (北京潤衡會計師事務所) and since March 2006, Mr. Zhu has been serving as a director of Beijing Legendhouse Consulting (北京潤勤諮詢有限公司).

Mr. Zhu obtained a bachelor's degree in overseas financial accounting (會計系外國財務會計專門化) from the Central University of Finance and Finance and Economics (中央財經大學) in Beijing in June 1995. Mr. Zhu has been a member of the Chinese Institute of Certified Public Accountants since

DIRECTORS AND SENIOR MANAGEMENT

February 2000. Since March 2015, Mr. Zhu has been serving as an independent non-executive director of Tsaker Chemical Group Limited (彩客化學集團有限公司), a company listed on the Hong Kong Stock Exchange (stock code: 1986).

Mr. Ding Zhiping (丁治平), aged 60, is our independent non-executive Director. He is primarily responsible for supervising our Board and providing independent judgement.

Mr. Ding has over 40 years of work experience. Since April 2002, Mr. Ding has been working at Xinjiang International Industry Co., Ltd (新疆國際實業股份有限公司) where he is currently the chairman of the board of directors. From November 1995 to April 1997, he served as a senior engineer at Bank of China, Xinjiang Branch. From February 2002 to April 2002, he served as chairman of the board of directors and general manager at Xinjiang Foreign Economic and Trade Group Co., Ltd.* (新疆外經貿集團有限責任公司).

Mr. Ding obtained a bachelor's degree in computer science from the Hefei University of Technology (合肥工業大學) in Hefei in September 1987, a master's degree in business management from the Auckland Institute of Studies in Auckland, New Zealand in April 1999 and an executive master of business administration from the Cheung Kong Graduate School of Business (長江商學院) in Beijing in May 2010.

Other disclosure pursuant to Rule 13.51(2) of the Listing Rules

Save as disclosed in this prospectus and to the best of the knowledge, information and belief of our Directors, having made all reasonable enquiries, each of our Directors confirms that (i) he/she did not hold any other positions or short positions in the Shares, underlying Shares, debentures of our Company and/or any associated corporation (with the meaning of Part XV of the SFO) as of the Latest Practicable Date; (ii) he/she had no other relationship with any Directors, senior management and/or substantial or Controlling Shareholders of our Company as of the Latest Practicable Date; (iii) he/she did not hold any directorships in any public companies the securities of which are listed on any securities market in Hong Kong and/or overseas in the three years immediately preceding the date of this prospectus; and (iv) there are no other matters concerning our Directors' appointments that need to be brought to the attention of our Shareholders and the Hong Kong Stock Exchange or shall be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

In addition to our Directors, our Group has the following senior management members responsible for the day-to-day management and operation of our business. The following table sets out certain information relating to members of our senior management team:

Name	Age	Position(s)	Roles and responsibilities	Time of Joining our Group	Relationship with Directors or other senior management
Mr. LI Qing (李青)	45	Chief executive officer	Overall management, decision-making and strategy planning	September 2014	Nil
Mr. ZHANG Yu (張羽)	43	Chief technical officer and general manager of the engine center (引擎中心)	Leading the research and application of engine technology	January 2015	Nil
Mr. LI Yi (李軼)	40	Vice president and chief financial officer	Providing financial management and formulating financial strategy	November 2015	Nil

Mr. Li Qing (李青) is the chief executive officer of our Company. See the paragraph headed “— Executive Directors” above.

Mr. Zhang Yu (張羽), aged 43, is the chief technical officer and general manager of the engine center (引擎中心) of our Company. Mr. Zhang is responsible for leading the research and application of engine technology.

Mr. Zhang has extensive experience in the game industry. From March 2004 to January 2015, Mr. Zhang served as the program director of Studio I (工作一室) at the Perfect World Group. Mr. Zhang joined our Group in January 2015 and since then Mr. Zhang has been serving as the general manager of the engine center (引擎中心) of our Group.

Mr. Zhang obtained a bachelor’s degree in electrical engineering from Tsinghua University (清華大學) in Beijing in July 2000.

Mr. Li Yi (李軼), aged 40, is the vice president and chief financial officer of our Company. Mr. Li is responsible for providing financial management and formulating financial strategies of our Group.

Mr. Li has extensive experience in accounting and financial management. From September 2001 to September 2011, Mr. Li worked at the audit department and the tax department of Ernst & Young (China) Advisory Limited Beijing Office in which his last position there was senior manager. From February 2013 to October 2015, Mr. Li served as a tax director (稅務總監) at the Perfect World Group. Mr. Li joined our Group in November 2015 and since then Mr. Li has been serving as the vice president and chief financial officer of our Group.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Li obtained a bachelor's degree in accounting (Certified Public Accountant) from Capital University of Economics and Business (首都經濟貿易大學) in Beijing in July 2001. He is accredited as a Certified Tax Agent (註冊稅務師) by the Beijing Bureau of Human Resource and Social Security (北京市人力資源和社會保障局) in September 2009. He has obtained the Board Secretary Qualification from the Shenzhen Stock Exchange (深圳證券交易所) in April 2019.

Save as disclosed above, none of our senior management members holds any position as director in any other listed companies in the last three years immediately preceding the date of this prospectus.

JOINT COMPANY SECRETARIES

Ms. Hao Lili (郝莉麗), aged 40, has been appointed as one of our joint company secretaries with effect from the Listing Date.

Ms. Hao has extensive experience in the legal industry. From September 2011 to March 2015, Ms. Hao served as a senior legal consultant at the Perfect World Group, during which she is primarily responsible for M&A support, intellectual property management and compliance. Ms. Hao joined our Group in May 2016 as the legal director of our Group. She is primarily responsible for leading the legal and compliance work of our Group.

Ms. Hao obtained a bachelor's degree in economic law from the China University of Political Science and Law (中國政法大學) in Beijing in July 2002 and a master's degree in international business law from the University of Nottingham, the UK in December 2003. Ms. Hao holds a Legal Profession Qualification Certificate* (法律職業資格證書) granted by the Ministry of Justice of the PRC (中華人民共和國司法部) in February 2006 and Securities Practice Qualification Certificate* (證券從業資格證) granted by the Securities Association of the PRC in May 2015.

Ms. Fok Po Yi (霍寶兒) has been appointed as one of our joint company secretaries with effect from the Listing Date. Ms. Fok is a vice president of SWCS Corporate Services Group (Hong Kong) Limited.

Ms. Fok has extensive experience in providing professional corporate secretarial services to private and listed companies. Prior to joining SWCS Corporate Services Group (Hong Kong) Limited, Ms. Fok worked for an international accounting firm and the Listing Division of the Hong Kong Stock Exchange for 13 years.

Ms. Fok obtained a bachelor's degree in business administration with honors majoring in accounting from the Chinese University of Hong Kong and a master's degree in corporate and financial law from the University of Hong Kong. Ms. Fok is a member of the Hong Kong Institute of Certified Public Accountants.

We have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted a waiver from strict compliance with the requirements under Rule 3.28 and Rule 8.17 of the Listing Rules in relation to the qualifications of one of our joint company secretaries, Ms. Hao Lili. For details of the waiver, see "Waivers from Strict Compliance with the Listing Rules."

DIRECTORS AND SENIOR MANAGEMENT

BOARD COMMITTEES

We have established the following committees within our Board of Directors, namely, audit committee, remuneration committee, nomination committee and risk management committee. The committees operate in accordance with the terms of reference adopted by our Board.

Audit Committee

We have established an audit committee with written terms of reference in compliance with Rules 3.21 and 3.22 of the Listing Rules and the Paragraph C.3 of the Corporate Governance Code as set forth in Appendix 14 to the Listing Rules. The audit committee consists of three members, namely, Mr. Zhu Lin, Mr. Ge Xuan and Mr. Ding Zhiping. Mr. Zhu Lin has appropriate accounting and financial management expertise and is the chairman of the committee. The primary duties of the audit committee include (i) making recommendations to our Board on the appointment, re-appointment and removal of external auditor; (ii) reviewing financial statements; (iii) providing material advice in respect of our financial reporting process; (iv) overseeing our internal control and risk management systems and audit process and discussing the risk management and internal control system with management to ensure that management has performed its duty to have effective systems; and (v) providing advice and comments to our Board on matters relating to corporate governance.

Remuneration Committee

We have established a remuneration committee with written terms of reference in compliance with Rule 3.26 of the Listing Rules and the Paragraph B.1 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The remuneration committee consists of three members, namely, Mr. Ge Xuan, Mr. Ding Zhiping and Mr. Li Qing. Mr. Ge Xuan is the chairman of the committee. The primary duties of the remuneration committee include (i) making recommendations to the Board regarding our policy and structure for the remuneration of our Directors and senior management and on the establishment of a formal and transparent procedure for developing remuneration policies; and (ii) making recommendations to the Board on the remuneration packages of our Directors and senior management and on employee benefit arrangements.

Nomination Committee

We have established a nomination committee with written terms of reference in compliance with the Paragraph A.5 of the Corporate Governance Code as set forth in Appendix 14 to the Listing Rules. The nomination committee consists of three members, namely, Mr. Li Qing, Mr. Ge Xuan and Mr. Ding Zhiping. Mr. Li Qing is the chairman of the committee. The primary duties of the nomination committee include (i) making recommendations to review the structure, size and composition (including the skills, knowledge and experience) of our Board; and (ii) reviewing and making recommendations to the Board on appointment of Directors and the management of the Board succession.

Risk Management Committee

We have established a risk management committee with written terms of reference. The risk management committee consists of three members, namely, Mr. Ding Zhiping, Mr. Li Qing and Mr. Zhu Lin. Mr. Ding Zhiping is the chairman of the committee. The primary duties of the risk management committee include (i) establishing, maintaining and overseeing the execution of risk

DIRECTORS AND SENIOR MANAGEMENT

management policies and procedures of our Company and making recommendations to the Board accordingly; (ii) collecting and administrating the information of connected persons; (iii) managing and reviewing connected transactions, and controlling risks associated with connected transactions; (iv) reviewing information and disclosures of connected persons and connected transactions in public disclosure documents of our Company; (v) formulating the regulations and management regulations in relation to our connected transactions; and (vi) proposing to the Board for approval after deliberation of the connected transactions.

CODE PROVISION A.2.1 OF THE CORPORATE GOVERNANCE CODE

Mr. Li Qing is our executive Director, chairman of the Board and the chief executive officer of our Company. With extensive experience in the information technology and game industry, Mr. Li Qing is responsible for the overall management, decision-making and strategy planning of our Group and has been instrumental to our Group's growth and business expansion since the establishment of our Group. Since Mr. Li Qing is the key reason for our Group's establishment, our Board considers that vesting the roles of chairman and chief executive officer in the same person, Mr. Li Qing, would not create any potential harm to the interest of our Group and it is, on the contrary, beneficial to the management of our Group. In addition, the operation of the senior management and our Board, which are comprised of experienced individuals, effectively checks and balances the power and authority of Mr. Li Qing. Our Board currently comprises two executive Directors (including Mr. Li Qing), two non-executive Directors and three independent non-executive Directors and therefore has a fairly strong independence element in its composition.

Save as disclosed above, we are in compliance with the requirements under all code provisions of the Corporate Governance Code as set out 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 the board diversity policy which sets out the objective and approach to achieve and maintain diversity of our Board. Pursuant to the board diversity policy, we seek to achieve Board diversity through the consideration of a number of factors when selecting the candidates to our Board, including but not limited to gender, skills, age, professional experience, knowledge, cultural and education background, ethnicity and length of service. The ultimate decision of appointment will be based on merit and the contribution which the selected candidates will bring to our Board.

Our Directors have a balanced mix of knowledge and skills, including overall management and strategic development, human resources, information technology, accounting and financial management, risk management, corporate governance and evaluation of properties and assets. They obtained degrees in various majors including computer science, physics, electrical engineering, financial accounting, economic law and trade economics. We have three independent non-executive Directors with different industry backgrounds, representing more than one-third of the Board. Furthermore, our Board has a wide range of age, ranging from 42 years old to 60 years old. Taking into account our existing business model and specific needs as well as the different backgrounds of our Directors, the composition of our Board satisfies our board diversity policy.

DIRECTORS AND SENIOR MANAGEMENT

Our nomination committee is responsible for ensuring the diversity of our Board members. After the Listing, our nomination committee will review the board diversity policy from time to time to ensure its continued effectiveness and we will disclose in our corporate governance report about the implementation of the board diversity policy on an annual basis.

COMPLIANCE ADVISER

We have appointed Red Solar Capital Limited as our compliance adviser upon the proposed Listing pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, our compliance adviser will advise us in the following circumstances:

- before the publication of any regulatory announcement, circular or financial report;
- where a transaction, which might be notifiable or connected transaction, is contemplated, including share issues and share repurchases;
- where we propose to use proceeds of the Global Offering in a manner different from that detailed in this prospectus;
- where our business activities, developments or results deviate from any forecast, estimate or other information in this prospectus; and
- where the Hong Kong Stock Exchange makes an inquiry of our Company under Rule 13.10 regarding unusual movements in the price or trading volume of our Shares.

The term of the appointment will commence on the Listing Date and end on the date on which we distribute our annual report of our financial results for the first full financial year commencing after the Listing Date, and such appointment may be subject to mutual agreement.

REMUNERATION AND COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

Our Directors and senior management receive compensation from our Group in the form of fees, salaries, bonuses, contributions to pension schemes, allowances and benefits in kind.

In order to incentivize our directors, senior management and employees for their contribution to our Group and to attract, motivate and retain skilled and experienced personnel to strive for the future development and expansion of our Group, our Company adopted the RSU Scheme on April 1, 2020. For details of the RSU Scheme, see “Appendix IV — Statutory and General Information — D. RSU Scheme.”

The aggregate remuneration (including salaries, bonuses, share-based compensations, contributions to pension schemes, other social security costs and other employee benefits) received by our Directors were approximately RMB17.2 million, RMB3.8 million and RMB4.1 million for the years ended December 31, 2017, 2018 and 2019, respectively.

The aggregate amount of salaries, bonuses, contribution to pension schemes, other social security costs and other employee benefits and share-based payments paid to our Company’s five highest paid individuals, including Directors and other employees, were approximately RMB164.2 million, RMB8.7 million and RMB13.0 million for the years ended December 31, 2017, 2018 and 2019, respectively.

DIRECTORS AND SENIOR MANAGEMENT

Pursuant to the arrangements currently in force, the aggregate amount of remuneration (excluding discretionary bonuses) payable to and the benefits in kind receivable by our Directors for the year ending December 31, 2020 is estimated to be approximately RMB4.8 million.

The independent non-executive Directors receive fees from our Company. All Directors receive reimbursements from our Company for expenses which are necessary and reasonably incurred for providing services to our Company or executing matters in relation to the operations of our Company and are paid out of the funds of our Company by way of fees for their services as directors, such sums (if any) as the Directors may from time to time determine (not exceeding in aggregate an annual sum excluding other amounts payable (e.g. expenses as remuneration for employment) or such larger amount as our Company may by ordinary resolution determine). Save as disclosed above, the Directors are not entitled to receive any other special benefits from our Company. The compensation of the Directors is determined by the Board which, following the Listing, will receive recommendations from the Remuneration Committee which will take into account applicable laws, regulations and rules.

No remuneration was paid by our Group to our Directors or the five highest paid individuals as an inducement to join or upon joining us or as a compensation for loss of office during the Track Record Period. Further, none of our Directors had waived any remuneration during the same period.

Save as disclosed above, no other payments have been made or are payable during the Track Record Period by our Group to the Directors.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

OUR CONTROLLING SHAREHOLDERS

As of the Latest Practicable Date, Mr. Li Qing, our founder, chairman, executive Director and chief executive officer, together with three current employees of our Group, namely Mr. Zhang Yu, Mr. Xiang Nan and Mr. Bai Wei, through their respective wholly-owned offshore holding companies, indirectly held 81.96%, 6.94%, 5.55% and 5.55% of the issued share capital of Cresc Chorus, respectively. Cresc Chorus, being an offshore holding company, in turn directly held 46.39% of the issued share capital of our Company after the Reorganization and immediately prior to the completion of the Global Offering. Since Mr. Li Qing, Mr. Zhang Yu, Mr. Xiang Nan and Mr. Bai Wei decided to hold their respective interest in our Company through a common investment holding company namely Cresc Chorus, they will be deemed as a group of our Controlling Shareholders for the purpose of the Listing Rules.

Immediately following the completion of the Capitalization Issue and the Global Offering (assuming that the Over-allotment Option is not exercised), Cresc Chorus, Mr. Li Qing, Mr. Zhang Yu, Mr. Xiang Nan, Mr. Bai Wei and their respective offshore holding companies (namely LuckQ, ZY Technology, XNZL Ltd and Wade Data) will continue to control more than 30% of the voting power at general meetings of our Company and remain as a group of our Controlling Shareholders.

DELINEATION OF OUR BUSINESS

Each of our Controlling Shareholders and Directors confirms that he/she/it (including his/her/its respective close associates (other than members of our Group)) does not have any interest in a business, other than the business of our Group, which competes or is likely to compete, directly or indirectly, with the business of our Group and would require disclosure pursuant to Rule 8.10 of the Listing Rules.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Having considered the following factors, our Directors are satisfied that we are capable of carrying out our business independently of our Controlling Shareholders and their respective close associates after the Listing.

Management Independence

Our Board comprises two executive Directors, two non-executive Directors and three independent non-executive Directors. Our Directors and members of the senior management possess relevant management and/or industry-related experience to act as Directors or senior management of our Company. For more details, see “Directors and Senior Management.” As of the Latest Practicable Date, no executive Director has any business which competes or is likely to compete, either directly or indirectly, with our business.

Each of our Directors is aware of his or her fiduciary duties as a Director which require, among others, that he or she must act for the benefit and in the best interests of our Company and not allow any conflict between his or her duties as a Director and his or her personal interests. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Company and our Directors or their respective close associates, the interested Director(s) shall abstain from voting on any Board resolutions approving any contract or arrangement or any other proposal in which he or she or any of his or her close associates have a material interest and shall not be counted in the quorum

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

present at the relevant Board meeting. In addition, we believe that our independent non-executive Directors can bring independent judgment to the decision-making process of our Board. For details, see “Directors and Senior Management.”

The daily operation of our Group is carried out by an independent experienced senior management team. We have the capabilities and personnel to perform all essential administrative functions, including financial and accounting, human resources, business management and research and development on a standalone basis.

Based on the above, our Directors are satisfied that the Board as a whole, together with our senior management team, is able to perform the managerial role in our Group independently after Listing.

Operational Independence

Although our Controlling Shareholders will retain a controlling interest in our Company after Listing, we have full rights to make all decisions regarding, and carry out, our business operations independently. We have established our own organizational structure and each department is assigned to specific areas of responsibilities. We are also in possession of all necessary relevant licenses, approvals and certificates to conduct our business and we have sufficient operational capacity in terms of capital and employees to operate and manage our business independently. We do not rely on our Controlling Shareholders or their close associates for our operations. We have independent access to customers and suppliers and an independent management team (including our Directors and senior management) to handle our daily operations. We have also established a set of internal control procedures to facilitate and maintain the independent operation of our business.

Based on the above, our Directors are satisfied that there is no operational dependence by us on our Controlling Shareholders and our Group is able to operate independently from our Controlling Shareholders after Listing.

Financial Independence

We have established our own finance department with a team of financial staff, who are responsible for financial control, accounting, reporting, group credit and internal control function of our Company, independent from our Controlling Shareholders. We can make financial decisions independently and our Controlling Shareholders do not intervene with our use of funds. We have also established an independent and sound audit system, a standardised financial and accounting system and a complete financial management system. We have sufficient capital and banking facilities to operate our business independently, and have adequate internal resources and a strong credit profile to support our daily operations. We have access to independent third party financing and are capable of obtaining such financing without the need to rely on any guarantee or security provided by our Controlling Shareholders or their respective close associates.

As of the Latest Practicable Date, there were no loans, advances or balances due to and from our Controlling Shareholders and their respective close associates which have not been fully settled, nor were there any pledges and guarantees provided by any of our Controlling Shareholders and their respective close associates on our Group’s borrowing which have not been fully released or discharged.

Based on the above, our Directors are satisfied that we are able to maintain financial independence from our Controlling Shareholders and their respective close associates after the Listing.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

CORPORATE GOVERNANCE MEASURES

Our Directors believe that there are adequate corporate governance measures in place to manage potential conflicts of interest to safeguard the interests of our Shareholders as a whole. In particular, we will implement the following measures:

- 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 has 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;
- we are committed that our Board should include a balanced composition of executive and non-executive Directors (including independent non-executive Directors) that can facilitate the exercise of independent judgment. 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. For further details of our independent non-executive Directors, see “Directors and Senior Management — Directors — Independent non-executive Directors;”
- in the event that any potential conflict of interest arises, i.e. where a Director has an interest in a company that will enter into an agreement with our Group, the Director(s) with an interest in the relevant transaction(s) shall be excluded from our Board deliberation process and abstain from voting and shall not be counted towards the quorum in respect of the relevant resolution(s) at such Board meeting;
- in the event any potential conflict of interest arises at the shareholders’ level, our Controlling Shareholders shall abstain from voting in the Shareholders’ meeting of our Company with respect to the relevant resolution(s);
- 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 our Company by our Controlling Shareholders were not taken up) either through our Company’s annual report or by way of announcements in compliance with the Listing Rules;
- pursuant to the Corporate Governance Code set out in Appendix 14 to the Listing Rules, our Directors, including our independent non-executive Directors, will be able to seek independent professional advice from external parties in appropriate circumstances at our Company’s costs; and
- we have appointed Red Solar Capital Limited as our compliance adviser, 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 the Directors’ duties and corporate governance.

RELATIONSHIP WITH THE TENCENT GROUP

TENCENT GROUP

Image Frame, a wholly-owned subsidiary of Tencent, is one of our substantial Shareholders. Immediately following the completion of the Global Offering (assuming that the Over-allotment Option is not exercised), Image Frame will then be entitled to exercise voting rights attached to Shares of our Company representing approximately 13.34% of the total issued share capital of our Company.

COOPERATION WITH THE TENCENT GROUP

Existing Cooperation with the Tencent Group

During the Track Record Period, we have been cooperating with the Tencent Group and we believe that our strategic partnership with the Tencent Group will grant us unique advantages in respect of user traffic and cloud infrastructure, and further strengthen our market position. In particular:

Game Cooperation

As a frontrunner in publishing our in-house developed games in markets in and outside the PRC, both by ourselves and in collaboration with third-party publishers, we cooperate with the Tencent Group, among others, in the publication, operation and distribution of our games.

For the third-party publishing business model, we have cooperated with the Tencent Group for publishing and operating four of our games in the PRC during the Track Record Period. As of the Latest Practicable Date, we have entered into an additional exclusive publishing and operation agreement with Sixjoy with respect to a game in Japan, which is expected to launch in April 2020. Further, we have entered into agreements with the Tencent Group on March 27, 2020 in relation to the exclusive publishing and operation of three of our games that are currently in the pipeline.

For the self-publishing business model, we have engaged third-party distribution channels, which include Tencent Computer, for the distribution of our games and obtain new users for our games through platforms of the Tencent Group, such as Tencent MyApp (騰訊應用寶). For example, we have engaged the Tencent Group for the distribution of four of our games during the Track Record Period.

During the Track Record Period, we have also engaged the Tencent Group for the promotion and advertising service for certain games on platforms operated by Tencent on an as needed basis, which may be digital advertising on social media platforms, such as QQ, QZone and Weixin; or out-of-home advertising, such as on transportation media.

Cloud-based infrastructure

We have migrated the part of our servers and computing infrastructure to our suppliers of cloud services and became one of the few game publishers in the PRC integrating cloud technology into game infrastructure. We have entered into a cloud services agreement with Tencent Cloud, pursuant to which Tencent Cloud agreed to provide to our Group: (i) cloud services ranging from cloud computing, data storage and CDN services, cloud security services, domain name services, mobility and communications services, video services and artificial intelligence products and/or services; and (ii) 24-hour/7 days per week after-sales services as well as assistance in addressing issues encountered during the use of Tencent Cloud services by our Group. Our Group would select and place orders to procure cloud service

RELATIONSHIP WITH THE TENCENT GROUP

packages from Tencent Cloud based on the requirements of our Group through the online platform of Tencent Cloud. The term of such strategic cooperation agreement is one year, which will be automatically renewed year from year unless a party notifies the other party of its intention not to renew.

Through our cloud-based infrastructure, we can utilize diversified resources of Tencent Cloud, including cloud computing, data storage and bandwidth service, which offers unparalleled data storage reliability and stability in China. Leveraging on Tencent Cloud services, the part of our servers have become cloud-based allowing a high degree of flexibility in managing the number of our servers on a needed basis, which has largely saved our game infrastructure costs. In addition, we have substantial flexibility in our game operating capacities by scaling up or down the number of our servers effortlessly through cloud, as well as reliable data storage through establishing three sets of data backups, and enhanced batch processing capabilities in computing large amounts of user data at one time.

Historical transactions with the Tencent Group

Set out below is a summary of our revenue generated from the Tencent Group in relation to our third-party publishing business model for the three years ended December 31, 2019:

Nature of transactions	For the years ended December 31,					
	2017		2018		2019	
	<i>(RMB in million)</i>	<i>% of our Group's total revenue</i>	<i>(RMB in million)</i>	<i>% of our Group's total revenue</i>	<i>(RMB in million)</i>	<i>% of our Group's total revenue</i>
Revenue share	514.73	39.31	350.95	40.34	585.69	54.88
Fixed licensing fees ⁽¹⁾	<u>3.77</u>	<u>0.29</u>	<u>3.77</u>	<u>0.43</u>	<u>0.79</u>	<u>0.07</u>
	<u>518.50</u>	<u>39.60</u>	<u>354.72</u>	<u>40.77</u>	<u>586.48</u>	<u>54.95</u>

Note:

- (1) Fixed licensing fees were initially recorded in contract liability and were then recognized as revenue ratably over the license period as they were considered to be right-to-access arrangements.

RELATIONSHIP WITH THE TENCENT GROUP

Set out below is a summary of our expenses-based transactions with the Tencent Group for the three years ended December 31, 2019:

Nature of transactions	For the years ended December 31,								
	2017			2018			2019		
	(RMB in million)	% of our Group's total cost	% of our selling and marketing expenses	(RMB in million)	% of our Group's total cost	% of our selling and marketing expenses	(RMB in million)	% of our Group's total cost	% of our selling and marketing expenses
Service fees for cloud services	3.25	1.19	—	3.98	2.29	—	3.39	1.91	—
Commissions for self-publishing of games on Tencent platforms	16.83	6.16	—	8.56	4.93	—	1.90	1.07	—
Promotion and advertising services ⁽¹⁾	0.57	—	0.25	Nil	—	—	1.42	—	1.24
	20.65	7.35	0.25	12.54	7.22	—	6.71	2.98	1.24

Note:

(1) Such promotion and advertising expenses are of the selling and marketing expenses nature.

Future cooperation plan with the Tencent Group

To further leverage our existing cooperation as well as develop new business relationships, we have entered into certain continuing connected transactions with the Tencent Group to:

- engage the Tencent Group for its promotion and advertising services for some of our games;
- continue to procure services of the Tencent Group, including but not limited to cloud services, cloud storage, cloud service-related technical support; and
- strengthen our cooperation with the Tencent Group in game development, licensing and publishing and distribution, so as to achieve stronger monetization through cooperation in the licensing and operation of our games. In particular, the Tencent Group entered into the underlying exclusive publishing and operation agreements with us on March 27, 2020 in relation to three new games expected to be launched in the PRC, in 2020 and 2021.

Our Directors are of the view that it is unlikely that our relationship with Tencent would be terminated or otherwise materially adversely changed, as our cooperation with Tencent are mutually beneficial and complementary. See “Connected Transactions” for further details on the material terms of the agreements with the Tencent Group which would be continued after Listing.

RELATIONSHIP WITH THE TENCENT GROUP

OPERATIONAL INDEPENDENCE FROM THE TENCENT GROUP

Having considered the following factors, our Directors believe that we have been operating our business independently from the Tencent Group in any material respect for the following reasons:

- (i) As a game developer, we developed our games based on original IPs that is developed in-house (“**Original IP Mobile Games**”) and licensed IPs from third-party IP holders (“**Licensed IP Mobile Games**”), and enjoyed the commercial liberty to select the game publishers to collaborate with during the Track Record Period. Given the established fanbases and virality of popular IPs, we were able to capitalize on the emotional attachment of the audients that rapidly built on the licensed IPs through the mobile games format of such IPs together with their respective IP holders during the Track Record Period, such as *Fantasy Zhuxian* (夢幻誅仙) and *Dragon Raja* (龍族幻想). As a result of our established track record, our strong game development and IP operational capabilities have made us the preferred choice of mobile game developers amongst the world-renowned IP holders, from whom we were able to source IPs with world-class quality and international recognition. As of the Latest Practicable Date, we had tentatively IP plans for six of our games, including four games based on our original IP and two based on licensed IPs. For example, as of the Latest Practicable Date, we had been cooperating with a top-tier global movie production house with an established track record in producing fantasy serials to adapt sequels to its phenomenal epic movie with over USD1.5 billion gross box office earnings into a mobile game. In light of the capabilities of our in-house game development team, together with a diverse and strong pipeline, our game development business operate independently from the Tencent Group, and we have forged and maintained long-standing strategic alliances with independent top-notch game publishers, such as Zlongame and G-MEI, in addition to the Tencent Group.
- (ii) According to the Frost & Sullivan Report, the Tencent Group is one of the major market participants throughout the value chain of mobile game market in the PRC, and it is an industry norm for top game developers to collaborate with the Tencent Group as a third party publisher, so as to maximize the commercial potential of our games and each other’s earnings. Such strong endorsement arising from its exclusive publishing and operation of our games enhances confidence and attracts high-paying users to our games as we generate gross billings from the sales of the virtual items sold in our games. Given Tencent is a leading mobile game publisher in the PRC, which operates a gaming platform open to a large number of high-paying game players, we chose to collaborate with the Tencent Group for the exclusive publishing and operation arrangement of certain games during the Track Record Period, because its platform offered access to a large number of high-paying players for our games and maximised each other’s earnings on a revenue sharing basis.

We generally publish our games through various distribution channels locally and globally, including Tencent MyApp (騰訊應用寶), iOS App Store and Google Play, so as to achieve a better market penetration in the publishing process of our games. According to the Frost & Sullivan Report, Tencent MyApp (騰訊應用寶) is the largest first-tier game distribution channel in the PRC by MAU, which recorded approximately 280 million MAU in 2019.

RELATIONSHIP WITH THE TENCENT GROUP

Furthermore, with respect to our cloud infrastructure, We are one of the few game publishers in the PRC integrating cloud technology in our proprietary cloud-based server architecture. Tencent is a leading provider of Internet value-added service in the PRC and offers a wide range of high-quality products and services. During the Track Record Period, the procurement of cloud services allocated to Tencent Cloud among our suppliers of cloud services have reduced. Our Directors believe that the procurement of cloud-based services from our suppliers, including the Tencent Group, will provide us with the necessary technologies to further develop our business, and allow a high degree of flexibility in managing the number of our servers on an as needed basis. As such, we believe our strategic cooperation with the Tencent Group is in the interest of our Group and our Shareholders as a whole and will not give rise to our reliance on the Tencent Group in any material respect.

With respect to promotion and advertising services for our games, we typically engage such services at the early stage of a game, where we organize comprehensive marketing and promotion campaigns to increase the exposure of such game and to attract new game players right after its launch. According to the Frost & Sullivan Report, Tencent was among the top three advertising platforms in the PRC in 2019 as measured by revenue generated from the provision of advertising services. During the Track Record Period, the historical service fees in relation to the promotion and advertising services incurred by our Group to the Tencent Group are approximately RMB0.57 million and RMB1.42 million for the year ended December 31, 2017 and 2019, respectively. Taking into account the wide spectrum of platforms operated by the Tencent Group, we believe that obtaining such services from the Tencent Group will be able to enhance the marketing exposure of our games extensively. We therefore entered into the Tencent Game Cooperation Framework Agreement in relation to game-related promotion and advertising services.

In addition to our cooperation with the Tencent Group in the PRC, we have actively expanded the worldwide distribution of our games with overseas publishers in Hong Kong, Macau, Taiwan, Southeast Asia, South Korea, Japan, Europe and the Americas, that are not our connected persons, and have gradually strengthened our self-publishing business by working with distribution channels that are not operated by our connected persons, such as iOS App Store and Google Play, during the Track Record Period. As a leading mobile game developer in the PRC, overseas publishers typically seek early partnerships with us to publish our games in their respective markets. Given there are third party publishers and distribution channels in each overseas market, we have forged and maintained sound cooperative relationships with such parties during the Track Record Period. As a result, the revenue contribution generated from other game publishing platforms as well as our self-publishing business are expected to have stronger growth in the next three years.

We believe that we will be able to function independently upon Listing as we do not in any material respect rely on the Tencent Group on the day-to-day operation of our business, in particular our procurement efforts of licensed IPs and our game development process as a game developer. While we intend to continue to strengthen our business cooperation with the Tencent Group, we believe our future strategic partnership with Tencent will grant us advantages in respect of user traffic and cloud technologies, and further strengthen our market position. In particular, with respect to game cooperation, taking into account leading position of the Tencent Group in the PRC, our strategic game cooperation with the Tencent Group grant us unique advantage to enhance user traffic and achieve monetization.

RELATIONSHIP WITH THE TENCENT GROUP

COMPETITION WITH THE TENCENT GROUP

Tencent is a leading provider of Internet value-added service in the PRC and offers a wide range of high-quality products and services. As part of its value-added service, Tencent offers both client games and smart phone games. Based on the annual results announcement of Tencent dated March 18, 2020 for the year ended December 31, 2019, Tencent's online games revenues achieved RMB114.7 billion.

Our Directors believe that, notwithstanding that Tencent Group also develops and publishes its own games, our competition with the Tencent Group does not give rise to material issues that affects our suitability for Listing:

- (a) the Tencent Group is not our Controlling Shareholder and does not in any way exert any material management influence over our Group;
- (b) we have been operating our business independently from the Tencent Group during the Track Record Period and will not give rise to our reliance on the Tencent Group in any material respect; and
- (c) we are a game developer with a leading position in terms of total gross billings from self-developed games both locally and globally in 2019. As part of our strategy to strengthen our strategic cooperation with the Tencent Group, we can further leverage our cooperation with the Tencent Group in game licensing and publishing and distribution, so as to maximise each other's earnings from the games that we develop in house. Our Directors are of the view that the strategic cooperation with the Tencent Group is mutually beneficial and complementary, and thus is in the interest of our Company and our Shareholders as a whole.

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following the completion of the Capitalization Issue and the Global Offering (assuming that the Over-allotment Option is not exercised), each of the following persons will have an interest or short position in Shares or the underlying Shares of our Company which would be required to be disclosed to our Company and the Hong Kong Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO or will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company:

Name	Nature of interest	Shares held as of the Latest Practicable Date ⁽¹⁾		Shares held immediately after the Capitalization Issue and the Global Offering (assuming the Over-allotment Option is not exercised) ⁽¹⁾	
		Number	Approximate percentage	Number	Approximate percentage
Cresc Chorus ⁽²⁾	Beneficial owner	47,335,000	46.39%	278,329,802	35.35%
LuckQ ⁽²⁾	Interest in controlled corporation	47,335,000	46.39%	278,329,802	35.35%
Mr. Li Qing ⁽²⁾	Interest in controlled corporation	47,335,000	46.39%	278,329,802	35.35%
Perfect World Interactive ⁽³⁾	Beneficial owner	23,570,408	23.10%	138,593,999	17.60%
Image Frame ⁽⁴⁾	Beneficial owner	17,870,408	17.51%	105,077,999	13.34%
Tencent ⁽⁴⁾	Interest in controlled corporation	17,870,408	17.51%	105,077,999	13.34%
GIC Private Limited . . .	Beneficial owner	Nil	—	53,793,000	6.83%
Green Particle	Beneficial owner	8,265,000	8.10%	48,598,200	6.17%

Notes:

- (1) All interests stated are long positions.
- (2) Cresc Chorus is owned as to 81.96% by LuckQ, which is in turn wholly owned by Mr. Li Qing. Accordingly, each of LuckQ and Mr. Li Qing is deemed to be interested in all the Shares held by Cresc Chorus by virtue of the SFO.
- (3) Perfect World Interactive is ultimately controlled by Perfect World Holding.
- (4) Image Frame is a wholly owned subsidiary of Tencent. By virtue of the SFO, Tencent is deemed to be interested in all the Shares held by Image Frame.

SUBSTANTIAL SHAREHOLDERS

Save as disclosed above, our Directors are not aware of any person who will, immediately following the completion of the Capitalization Issue and Global Offering (assuming that the Over-allotment Option is not exercised), have an interest or short positions in Shares or the underlying Shares which will be required to be disclosed to our Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of SFO or will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company or any of our subsidiaries.

SHARE CAPITAL

AUTHORISED AND ISSUED SHARE CAPITAL

The following is a description of the authorised issued share capital of our Company in issue and to be issued as fully paid or credited as fully paid immediately prior to and following the completion of the Capitalization Issue and the Global Offering:

AUTHORISED SHARE CAPITAL

	<u>Nominal Value</u> (US\$)
5,000,000,000 Shares of US\$0.00001 each	50,000

ISSUED AND TO BE ISSUED, FULLY PAID OR CREDITED TO BE FULLY PAID UPON COMPLETION OF THE CAPITALIZATION ISSUE AND THE GLOBAL OFFERING

Assuming the Over-allotment Option is not exercised, the issued share capital of our Company immediately following the completion of the Capitalization Issue and the Global Offering will be as follows:

	<u>Nominal Value</u> (US\$)
102,040,816 Shares in issue at the date of this prospectus	1,020.40816
497,959,184 Shares to be issued pursuant to the Capitalization Issue	4,979.59184
<u>187,400,000</u> Shares to be issued pursuant to the Global Offering	<u>1,874</u>
<u>787,400,000</u> Shares in total	<u>7,874</u>

ASSUMPTIONS

The above table assumes that the Global Offering has become unconditional and the issue of Shares pursuant thereto is made as described herein. The above table does not take into account any Shares which (i) may be allotted and issued pursuant to the exercise of the Over-allotment Option, or (ii) may be allotted and issued or repurchased by our Company under the general mandate for the allotment and issuance of Shares or the general mandate for repurchase of Shares granted to our Directors as referred to below or otherwise.

MINIMUM PUBLIC FLOAT

According to Rule 8.08 of the Listing Rules, at the time of the Listing and at all times thereafter, at least 25% of the total issued share capital of our Company shall be held by the public (as defined in the Listing Rules).

RANKING

The Offer Shares of our Company will rank equally with all of the Shares currently in issue or to be issued and, in particular, will qualify for all dividends or other distributions declared, made or paid on the Shares in respect of a record date which falls after the date of this prospectus except for the entitlement under the Capitalization Issue.

SHARE CAPITAL

CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED

Pursuant to the Cayman Companies Law and the terms of the Memorandum and the Articles, 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) subdivide 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 Companies Law reduce its share capital or share capital redemption reserve by its shareholders passing a special resolution. For details, see “Appendix III — Summary of the Constitution of Our Company and the Cayman Companies Law — 2. Articles of Association — 2.1 Shares — (c) Alteration of capital.”

Pursuant to the Cayman Companies Law and the terms of the Memorandum and the Articles, all or any of the special rights attached to the shares or any class of shares may be varied, modified or abrogated either with the consent in writing of the holders of not less than three-quarters is nominal value of the issued shares of that class or with the sanction of special resolution passed at a separate general meeting of the holders of the shares of that class. For details, see “Appendix III — Summary of the Constitution of our Company and Cayman Companies Law — 2. Articles of Association — 2.1 Shares — (b) Variation of rights of existing shares or classes of shares.”

Further, our Company will also hold general meetings from time to time as may be required under the Articles, a summary of which is set out in “Appendix III — Summary of the Constitution of our Company and the Cayman Companies Law.”

GENERAL MANDATE TO ISSUE SHARES

Subject to the conditions stated in “Structure of the Global Offering — Conditions of the Global Offering,” our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares or securities convertible into Shares or options, warranties or similar rights to subscribe for Shares of such convertible securities and to make or grant offers, agreements or options which would or might require the exercise of such powers, provided that the aggregate number of Shares allotted or agreed to be allotted by the Directors other than pursuant to:

- (i) the exercise of any subscription rights, warrants which may be issued by our Company from time to time;
- (ii) any scrip dividend scheme or similar arrangement providing for the allotment of Shares in lieu of the whole or part of a dividend on Shares in accordance with our Articles of Association;
- (iii) a specific authority granted by the Shareholders in general meeting,

shall not exceed the aggregate of:

- (i) 20% of the total number of our Shares in issue upon completion of the Global Offering; and
- (ii) the total number of the Shares repurchased by our Company (if any) under the general mandate to repurchase Shares referred to in “— General Mandate to Repurchase Shares” below.

SHARE CAPITAL

This general mandate to issue Shares will expire at the earliest of:

- (i) the conclusion of our Company's next annual general meeting; or
- (ii) on the date by which our Company is required by any applicable law of the Cayman Islands or the Articles of Association to hold our next annual general meeting; or
- (iii) when the authority given to our Directors is renewed, varied or revoked by an ordinary resolution of our Shareholders at a general meeting.

See "Appendix IV — A. Further Information about Our Group — 4. Resolutions in writing of the shareholders of our Company passed on June 24, 2020."

GENERAL MANDATE TO REPURCHASE SHARES

Subject to the conditions stated in "Structure of the Global Offering — Conditions of the Global Offering," our Directors have been granted a general unconditional mandate to exercise all powers of our Company to repurchase the Shares with a total number of not more than 10% of our Shares in issue immediately following the completion of the Global Offering (excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option).

This mandate only relates to repurchases made on the Hong Kong Stock Exchange, or any other stock exchange on which the securities of our Company may be listed (and recognized by the SFC and the Hong Kong Stock Exchange for this purpose), and otherwise in accordance with the rules and regulations of the SFC, the Hong Kong Stock Exchange, the Cayman Companies Law and all other applicable laws. Further information required by the Hong Kong Stock Exchange to be included in this prospectus regarding the repurchase of Shares is set out in the paragraph headed "Appendix IV — A. Further Information about Our Group — 4. Resolutions in writing of the shareholders of our Company passed on June 24, 2020."

This general mandate to repurchase Shares will expire at the earliest of:

- (i) the conclusion of our Company's next annual general meeting; or
- (ii) on the date by which our Company is required by any applicable law of the Cayman Islands or the Articles of Association to hold our next annual general meeting; or
- (iii) when the authority given to our Directors is renewed, varied or revoked by any ordinary resolution of our Shareholders at a general meeting.

See "Appendix IV — A. Further Information about Our Group — 4. Resolutions in writing of the shareholders of our Company passed on June 24, 2020."

FINANCIAL INFORMATION

You should read the following discussion and analysis with our audited historical financial information, including the notes thereto, included in Appendix I to this prospectus. Our historical financial information has been prepared in accordance with IFRS.

The following discussion and analysis contain forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on our assumptions and analysis in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, whether actual outcomes and developments will meet our expectations and predictions depends on a number of risks and uncertainties. In evaluating our business, you should carefully consider the information provided in this document, including but not limited to the sections headed “Risk Factors” and “Business.”

OVERVIEW

We are a leading mobile game developer in China with proven capabilities in developing high-quality mobile games with excellent market reception. We mainly focus on mobile MMORPG development and have established a solid track record. Having gained a thorough understanding of game player demand for midcore to hardcore games with quality content, we aspire to continually roll out blockbuster titles with relentless passion and unwavering dedication. Our principal lines of business comprise development and licensing business and integrated game publishing and operation business. For our development and licensing business, we license our self-developed games to third-party publishers who operate our online games in specific regions or countries within agreed period. For our integrated game publishing and operation business, we publish our games through a diverse range of third-party distribution channels and self-operated distribution channels.

Our revenue was RMB1,309.2 million, RMB870.1 million and RMB1,067.2 million for 2017, 2018 and 2019, respectively. We had net losses of RMB159.4 million and RMB75.4 million in 2017 and 2018, respectively, and net profit of RMB120.4 million in 2019. We had adjusted net profit of RMB423.2 million, RMB310.9 million and RMB354.5 million in 2017, 2018 and 2019, respectively.

BASIS OF PREPARATION

Our historical financial information has been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by International Accounting Standards Board.

The historical financial information has been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities at fair value through profit or loss, which are carried at fair value.

The preparation of the historical financial information in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying our accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to our historical financial information, are disclosed in Note 4 of Appendix I to this prospectus.

FINANCIAL INFORMATION

We adopted a full retrospective application of IFRS 9, IFRS 15 and IFRS 16, which have been applied on a consistent basis throughout the Track Record Period. We believe that the adoption of IFRS 9, IFRS 15 and IFRS 16, as compared to the requirements of IAS 39, IAS 18 and IAS 17, does not have significant impact on our financial position and performance during the Track Record Period.

MAJOR FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations have been, and are expected to continue to be, materially affected by a number of factors, many of which are outside of our control, including the following:

General Factors

Our business and operating results are affected by general factors affecting the mobile game industry in China, which include:

- growth and competition environment of China's mobile game market;
- relevant laws and regulations, governmental policies and initiatives affecting the mobile game industry;
- market players' capability in tracking development in the mobile Internet and technology; and
- China's overall economic growth and level of per capita disposable income.

As we have and will further expand the distribution of our games to markets outside of mainland China, including Hong Kong, Macau, Taiwan, Southeast Asia, South Korea, Japan, Europe and the Americas, our business and operating results are also subject to general factors affecting the conduct of business in an environment of multiple languages, cultures, customs, legal systems, alternative dispute resolution systems, and commercial infrastructures. Such factors include:

- currency exchange rate fluctuations;
- relevant local laws and regulations, governmental policies and initiatives affecting the mobile game industry in local markets;
- political, economic and social instability of local markets; and
- growth and competition environment of the international mobile game market.

Unfavorable changes in any of these general industry conditions could materially and adversely affect demand for our games and services or the manner in which we provide our services, and therefore materially and adversely affect our results of operations.

Company Specific Factors

While our business is influenced by general factors affecting the mobile game industry, our results of operations are also affected by company specific factors, including the following:

FINANCIAL INFORMATION

Our Ability to Provide High-quality Games with Excellent Market Reception

We rely on our mature and strategically selective portfolio of top-rated mobile games with excellent market reception globally to drive high in-game purchase and to support our strategic relationship with our third-party publishing and distribution channels. We adhere to our distinctive strategic positioning of creating high-quality games and, during the Track Record Period and up to Latest Practicable Date, we had 14 mobile games, five of which generated gross billings over RMB100.0 million in their first month of launch, with the highest record of over RMB600.0 million. As we operate in a market characterized by rapidly developing technologies, evolving industry standards, frequent new game launches and updates and changing game player preferences and demands, we believe that the high quality and the continuing excellent market reception of our games depend in significant part on our profound knowledge and in-depth insights in the rapidly changing new trends in the game industry.

Our Ability to Grow Our Engaged Game Player Base with High Paying Potential

The size and engagement of our game player base is significant to the expansion of our business. A large and engaged game player base supplies us with high-quality and evolving game player feedback and behavioral data, enabling us to develop new games and improve existing games with features catering to evolving game player preferences and demand. In addition, industry players, such as game publishers, are drawn to us because of the size of our game player base, its attractive demographics and the level of our game player engagement. We have achieved substantial growth of our game player base during the Track Record Period. We have cultivated a highly engaged game player community and a significant paying user base. The cumulative registered players of our mobile games increased from 95.6 million as of December 31, 2018 to 121.2 million as of December 31, 2019. The average MAUs for 2019 were 3.4 million, outpacing the figures of 3.1 million for 2018.

Furthermore, as our games are free to download and play and our revenue from the integrated game publishing and operation business substantially relies on the sale of virtual items, our results of operations depend on our ability to monetize our game player base, i.e., to increase the number and spending of our paying players. In 2019, the average MPUs of all our mobile games in operation were 0.5 million, outpacing the figures of 0.4 million for 2018, and the ARPU of all our mobile games was RMB26, outpacing the figures of RMB24 for 2018.

See “Business — Our Games — Our Game’s Performance” for data of cumulative registered players, average MAUs, average MPUs and ARPU of our mobile games and detailed analysis of their fluctuations.

Our future growth will largely depend on whether we are able to retain our existing game players, attract new game players, maintain active game player base and enhance game monetization. We will continue to stimulate game player interest and drive in-game purchases by improving the quality of our games, introducing new game features, services and virtual items, and launching various in-game promotions and other activities.

Our Relationship with Third-Party Game Publishing and Distribution Channels

We have fostered long-term strategic alliances with top-notch publishers to publish, promote and operate certain of our games. We also cooperate with world-leading distribution channels, such as iOS App Store and Google Play, to distribute certain of our games globally. Building upon our successful track

FINANCIAL INFORMATION

record and the outstanding performance of our development team, we are able to capture long-term growth opportunities arising along each game's value chain through our strategic collaboration with diverse parties.

Our five largest customers, all being our publishers under our development and licensing business, accounted for 65.5%, 65.8% and 75.9% of our total transaction amount in 2017, 2018 and 2019, respectively. We cooperate with major publishing and distribution channels in the market and we believe such cooperation is essential for the growth of our business and increase of our revenue and market share.

Our Ability to Make Effective Use of Our Research and Development Expenses

Our demonstrated development capabilities are among the key factors of our success. In addition to our well-structured research and development system, we have built a cohesive in-house development team consisting of industry-leading game development talents across age groups. All of our games are developed in-house and, to maintain a competitive edge, our games have undergone a rigorous process of research, appraisal, development and testing. See "Business — Our Business Processes — Game Development."

In-house development is a time-consuming process and it requires a substantial initial investment prior to the game launch, as well as a significant commitment of future resources to produce updates and expansion packs. We incurred research and development expenses of RMB455.5 million, RMB327.6 million and RMB389.2 million in 2017, 2018 and 2019, respectively, accounting for 34.8%, 37.7% and 36.5% of our total revenue for the same periods. As we plan to roll out more new games to increase game player engagement and loyalty and to underpin our leading position in industry, our ability to control and make effective use of our research and development expenses would have a significant impact on our results of operations.

Promotion and Marketing of Our Games and Brand

To attract new game players and enhance our brand recognition, we market our games worldwide through a diverse spectrum of advertising and promotional programs, such as online advertising, social media advertising, on-campus publicity campaigns and industry expos. We have a dedicated team which works closely with our publishing and operation team to design and implement marketing and promotional programs catering to the demographics and characteristics of our target group of game players. See "Business — Marketing and Promotion."

The promotion and advertising expenses of a game generally will fluctuate along the progression of its life cycle. Typically, at the early growth stage of a game, the promotion and advertising expenses tend to increase rapidly as a result of the comprehensive marketing and promotion campaigns to increase the exposure of the game and to attract new game players right after its launch. At the maturity stage of a game, the promotion and advertising expenses tend to be stable and lower than that during the early growth stage as we maintain regular promotion and marketing efforts. When a game enters into its recession stage, its promotion and advertising expenses tend to further decrease as we maintain basic game operations for existing players.

FINANCIAL INFORMATION

In 2017, 2018 and 2019, we incurred promotion and advertising expenses of RMB206.5 million, RMB67.8 million and RMB92.8 million, respectively, accounting for 89.5%, 72.4% and 81.0% of our total selling and marketing expenses and 15.8%, 7.8% and 8.7% of our total revenue during the same periods. As we continue to increase our domestic and global footprints, our expenses for marketing and brand promotion may continue to increase in the near future.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Some of our accounting policies require us to apply estimates and assumptions as well as complex judgments related to accounting items. The estimates and assumptions we use and the judgments we make in applying our accounting policies have a significant impact on our financial position and operational results. Our management continually evaluates such estimates, assumptions and judgments based on past experience and other factors, including industry practices and expectations of future events that are deemed to be reasonable under the circumstances. There has not been any material deviation from our management's estimates or assumptions and actual results, and we have not made any material changes to these estimates or assumptions during the Track Record Period. We do not expect any material changes in these estimates and assumptions in the foreseeable future.

We set forth below those accounting policies that we believe are of critical importance to us or involve the most significant estimates, assumptions and judgments used in the preparation of our financial statements. Our significant accounting policies, estimates, assumptions and judgments, which are important for understanding our financial condition and results of operations, are set forth in detail in Notes 2 and 4 of Appendix I to this prospectus.

Revenue Recognition

We evaluated and recognized revenue based on a five step approach:

- identify the contract(s) with a customer;
- identify the performance obligations in the contract;
- determine the transaction price;
- allocate the transaction price to each performance obligation; and
- recognize revenue when each performance obligation is satisfied.

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for services provided, stated net of discounts, returns and value added taxes. Revenue is recognized when or as the control of the goods or services is transferred to the customer. Depending on the terms of the contract and the laws that apply to the contract, control of the goods and services may be transferred over time or at a point in time.

We report revenue on a gross or net basis depending on whether we act as a principal or an agent in a transaction. We are a principal if we control the specified product or service before that product or service is transferred to a customer or we have a right to direct others to provide the product or service to the customer on our behalf. Indicators that we act as a principal include but not limited to whether we

FINANCIAL INFORMATION

(i) are the primary obligor in the arrangement; (ii) have latitude in deciding the selling price; (iii) have discretion in selection of suppliers; (iv) change the product or perform part of the service; and (v) have involvement in the determination of product or service specifications.

We generate revenue through our development and licensing business, under which we license our self-developed games to third-party publishers, and our integrated game publishing and operation business, under which we publish the self-developed games through a diverse range of third-party distribution channels and self-operated distribution channels. All of our games adopt the free-to-play model, allowing game players to download and to try new games without up-front cost and we provide various virtual items to stimulate players' in-game purchases.

Revenue from Development and Licensing Business

We license our self-developed games to third-party publishers who operate our online games in specific regions or countries within agreed period. Under such development and licensing business, we receive revenue share and, in some cases, non-refundable fixed licensing fees from third-party publishers. See “Business — Monetization and Pricing.”

We have evaluated the respective roles and responsibilities of third-party publishers and us accordingly under such development and licensing business. Third-party publishers take primary responsibilities under these licensing arrangements, such as marketing and promoting the games, hosting the game servers, determining the price of the in-game virtual items, selecting distribution and payment channels and providing customer services, and therefore have exposure to the significant risks and rewards associated with the operation of these games. Therefore, the revenue share is recognized as revenue on a net basis when cash is paid by game players and collected by third-party publishers, and commissions charged by distribution channels and payment channels are deducted from the gross billings. The non-refundable fixed licensing fees are initially recorded as contract liabilities and are then recognized as revenue ratably over the licensing period as they are considered to be right-to-access arrangements.

Revenue from Integrated Game Publishing and Operation Business

We also directly publish our games through a diverse range of third-party distribution channels and self-operated distribution channels, including various mobile application stores and software websites. For games we publish through third-party distribution channels, the distribution channels are entitled to commissions which are withheld and deducted from gross billings collected from game players, with the net amounts remitted to us. For games we publish through self-operated distribution channels, we collect gross billings directly from payment channels after deducting payment channel service fees. See “Business — Monetization and Pricing.”

Under the integrated game publishing and operation business, we take primary responsibilities for game development and updates, price determination of in-game virtual items and game operation, including providing customer services and hosting game servers. We consider ourselves as the principal under such business arrangement and therefore record the online game revenue on a gross basis. Commissions paid to the distribution channels and payment channels are recorded as cost of revenue.

Upon the sale of in-game virtual items, we typically have an implied obligation to provide the service which enables the in-game virtual items to be displayed and consumed in the respective games. As a result, the proceeds from the sales of in-game virtual items are initially recorded as contract liabilities

FINANCIAL INFORMATION

and are subsequently recognized as revenue when the services are considered to be rendered either upon consumption or ratably over the average playing period of paying players (“Player Relationship Period”). For the purposes of determining when services have been rendered to the respective paying players, we have determined the following:

- consumable items represent in-game virtual items that can be consumed by one in-game action of a game player or can expire over a predetermined period of time. We keep track of the consumption or expiration of all the consumable items in a game. Revenue in relation to consumable items are recognized (as a release from contract liability) after they are consumed or expire as determined, as our obligations in connection with such items have been fully rendered to the game players after such consumption or expiration.
- durable items represent in-game virtual items that are accessible by the game players as long as they play the game. We provide continuous services in connection with these durable items until these items are no longer used by the game players. Revenue in relation to durable items is recognized over the Player Relationship Period, which represents the best estimates of the average life of durable virtual items for a game.

We determine the Player Relationship Period through periodic estimation as we generally will reassess the Player Relationship Period of a game semi-annually. Such estimation is generally based on our analysis of historical paying player behavioral data and game data including log-in records and purchase records of paying players and game life cycle. If at some point we lack sufficient data to accurately determine the Player Relationship Period for one game, such as when a game is newly launched, we estimate its Player Relationship Period based on data from our other similar types of games until the new game establishes its own patterns and history. We also take into account the game profile, target group of game players, and its attractiveness to game players of different demographic groups in estimating the Player Relationship Period for each game. Any adjustments arising from changes in the Player Relationship Period as a result of new information will be accounted for as a change in accounting estimate.

Generally, there is a growing trend of the Player Relationship Period for each of our game due to the enhanced player engagement and loyalty along the progression of the game’s life cycle. During the Track Record Period, we made material adjustments to the Player Relationship Period of *The Castle in the Sky* (天空紀元) in markets outside of mainland China and *Naval Creed* (戰艦聯盟) in mainland China and markets outside of mainland China. Such material adjustments did not have material impact on our revenue.

Specifically, the material adjustments to the Player Relationship Period of two of our games during the Track Record Period are as below: (i) *The Castle in the Sky* (天空紀元) was officially launched in 2018 outside of mainland China. We adjusted its Player Relationship Period in markets outside of mainland China from 39 days in 2018 to 67 days in 2019 due to its strong performance resulting in material changes to its paying player data and game data. Such adjustment resulted in a decrease in revenue recognition of RMB0.02 million, less than 0.01% of our total revenue of 2019; (ii) *Naval Creed* (戰艦聯盟) was officially launched in 2017 in mainland China. We adjusted its Player Relationship Period in mainland China market from 107 days in 2017, to 186 days in 2018 and further to 213 days in 2019, due to its strong performance resulting in material changes to its paying player data and game data. The adjustment in 2018 resulted in a decrease of revenue recognition of RMB0.5 million, being 0.06% of

FINANCIAL INFORMATION

our total revenue of 2018, and the adjustment in 2019 resulted in a decrease of revenue recognition of RMB0.3 million, being 0.02% of our total revenue of 2019; and (iii) *Naval Creed* (戰艦聯盟) was officially launched in 2017 outside of mainland China. We adjusted its Player Relationship Period in markets outside of mainland China market from 111 days in 2017 to 189 days in 2018 and further to 141 days in 2019 due to the changes on level of player engagement. The adjustment in 2018 resulted in a decrease of revenue recognition of RMB0.09 million, being 0.01% of our total revenue of 2018, and the adjustment in 2019 resulted in an increase of revenue recognition of RMB0.04 million, less than 0.01% of our total revenue of 2019.

Revenue from Others

We also provide technology support and upgrade services to other game developers, and earn service fees from them based on a prescribed rate. Such service revenue is contingent upon future events including future cash paid by game players and collected by other game developers, and is recognized when the contingency is met provided that collectability is reasonably assured.

Revenue recognition for our games

As mentioned above, we act as a principal for games that we directly publish through third-party distribution channels and self-operated distribution channels, and we act as an agent for games that are licensed to third-party publishers. When acting as a principal, we manage all aspects of the operation of the self-published games, including marketing and promoting the games, hosting the game servers, determining the price of the in-game virtual items, selecting distribution and payment channels and providing customer services. When acting as an agent, we are responsible for continuously maintaining, upgrading and optimizing the games complying with requests from third-party publishers during the entire life cycles of the games, while third-party publishers manage the game publishing and the main part of the game operation.

FINANCIAL INFORMATION

In light of the differences in market characteristics between the mainland China market and the markets outside of mainland China, we may choose self-publishing for a game in one market but third-party publishing in another. Therefore, for one game, we may act as a principal in one market but as an agent in another. The following table sets out the revenue contribution from each mode for our games during the Track Record Period:

	Year ended December 31,					
	2017		2018		2019	
	RMB million	%	RMB million	%	RMB million	%
<i>Fantasy Zhuxian</i> (夢幻誅仙) ⁽¹⁾	463.2	35.4	173.5	19.9	101.2	9.5
Self-publishing (act as principal) . . .	—	—	0.8	0.1	—	—
Third-party publishing (act as agent)	463.2	35.4	172.7	19.8	101.2	9.5
<i>The Castle in the Sky</i> (天空紀元)	275.5	21.0	221.3	25.4	92.3	8.6
Self-publishing (act as principal) . . .	262.5	20.0	190.0	21.8	80.2	7.5
Third-party publishing (act as agent)	13.0	1.0	31.3	3.6	12.1	1.1
<i>King of Kings/World of Kings</i> (萬王之王3D)	—	—	184.1	21.2	332.2	31.1
Self-publishing (act as principal) . . .	—	—	—	—	140.3	13.1
Third-party publishing (act as agent)	—	—	184.1	21.2	191.9	18.0
<i>Dragon Raja</i> (龍族幻想) ⁽²⁾	—	—	—	—	389.3	36.5
Self-publishing (act as principal) . . .	—	—	—	—	—	—
Third-party publishing (act as agent)	—	—	—	—	389.3	36.5
<i>Love & Sword</i> (御劍情緣) ⁽¹⁾	185.2	14.1	66.2	7.6	61.4	5.8
Self-publishing (act as principal) . . .	—	—	2.5	0.3	0.6	0.1
Third-party publishing (act as agent)	185.2	14.1	63.7	7.3	60.8	5.7
<i>Power and Honor</i> (權力與榮耀)	162.8	12.5	58.1	6.7	24.0	2.3
Self-publishing (act as principal) . . .	114.1	8.8	21.9	2.5	9.1	0.9
Third-party publishing (act as agent)	48.7	3.7	36.2	4.2	14.9	1.4
<i>Loong Craft</i> (六龍爭霸/六龍御天) ⁽¹⁾ . . .	135.0	10.3	64.9	7.5	31.5	3.0
Self-publishing (act as principal) . . .	3.4	0.3	0.1	0.0	—	—
Third-party publishing (act as agent)	131.6	10.0	64.8	7.5	31.5	3.0
Others	87.5	6.7	102.0	11.7	35.3	3.2
Self-publishing (act as principal) . . .	3.5	0.3	50.4	5.8	15.5	1.5
Third-party publishing (act as agent)	84.0	6.4	51.6	5.9	19.8	1.7

Notes:

- (1) As of the Latest Practicable Date, *Fantasy Zhuxian* (夢幻誅仙), *Love & Sword* (御劍情緣) and *Loong Craft* (六龍爭霸/六龍御天) were published only through third-party publishing. See “Business — Our Games — Our Existing Game Portfolio.”
- (2) *Dragon Raja* (龍族幻想) was published only through third-party publishing during the Track Record Period, but was also through self-publishing in 2020. See “Business — Our Games — Our Existing Game Portfolio.”

Contract Liabilities and Contract Costs

A contract liability is our obligation to transfer goods or services to a customer for which we have received consideration (or an amount of consideration is due) from the customer.

FINANCIAL INFORMATION

Our contract liabilities mainly consist of the unamortized balance of the non-refundable fixed licensing fees paid by licensees, the unamortized balance of sales of in-game virtual items and revenue share we received from third-party publishers in advance, which will be recognized as revenue when all of the revenue recognition criteria are met.

Contract costs are mainly contract fulfillment costs, which primarily consist of unamortized commissions charged by third-party distribution channels. They are capitalized as contract fulfillment costs and amortized over their respective Player Relationship Periods, which is consistent with the pattern of recognition of the associated revenue.

For further details, see Note 2.22 of Appendix I to this prospectus.

Income Tax Expenses

The Company is incorporated in the Cayman Islands as an exempted company with limited liability under the Cayman Companies Law and, accordingly, is exempted from Cayman Islands income tax. The Group entities established under the Business Companies Act (as amended) of the BVI are exempted from BVI income taxes.

The entity incorporated in Hong Kong is subject to Hong Kong profit tax at a rate of 16.5% on the accessible profits for the years ended 2017, 2018 and 2019, based on the existing legislation, interpretations and practices in respect thereof.

PRC enterprise income tax (“EIT”) provision of the Group in respect of its operations in the PRC was calculated at the general EIT rate of 25% on the assessable profits during the Track Record Period, based on the existing legislation, interpretations and practices in respect thereof.

During the Track Record Period, Tianjin Loong qualified as High and New Technology Enterprises (“HNTEs”) under the EIT Law since 2017 and it was entitled to a preferential EIT rate of 15% in 2017, 2018 and 2019. Huai’an Loong also qualified as HNTEs since 2018 and it was entitled to the same preferential EIT rate of 15% in 2018 and 2019. Besides, during the Track Record Period, Horgos Loong was entitled to a tax concession of exemption from EIT since its incorporation in a special economic development zone under relevant PRC laws and regulations in 2017.

During the Track Record Period, our income tax expenses comprise current income tax and deferred income tax. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where we operate and generate taxable income. The deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in our historical financial information.

For further details, see Note 2.18 and Note 11 of Appendix I to this prospectus.

FINANCIAL INFORMATION

DESCRIPTION OF MAJOR COMPONENTS OF OUR RESULTS OF OPERATIONS

The following table sets out a summary of our results of operations with line items in absolute amounts and as percentages of our revenue for the periods indicated.

	Year ended December 31,		
	2017	2018	2019
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Revenue	1,309.2	870.1	1,067.2
Cost of revenue	<u>(273.2)</u>	<u>(173.6)</u>	<u>(177.6)</u>
Gross profit	<u>1,036.0</u>	<u>696.5</u>	<u>889.6</u>
Research and development expenses	(455.5)	(327.6)	(389.2)
Selling and marketing expenses	(230.8)	(93.7)	(114.5)
Administrative expenses	(99.5)	(38.9)	(57.2)
Other income	35.6	17.0	14.1
Other (losses)/gains, net	<u>(4.8)</u>	<u>57.7</u>	<u>24.1</u>
Operating profit	<u>281.0</u>	<u>311.0</u>	<u>366.9</u>
Finance income	7.7	12.7	8.6
Finance costs	<u>(1.0)</u>	<u>(5.8)</u>	<u>(17.9)</u>
Finance income/(costs), net	6.7	6.9	(9.3)
Fair value changes on convertible redeemable preferred shares	<u>(383.6)</u>	<u>(381.3)</u>	<u>(212.5)</u>
(Loss)/Profit before income tax	(95.9)	(63.4)	145.1
Income tax expenses	<u>(63.5)</u>	<u>(12.0)</u>	<u>(24.7)</u>
(Loss)/Profit for the year	<u><u>(159.4)</u></u>	<u><u>(75.4)</u></u>	<u><u>120.4</u></u>
(Loss)/Profit attributable to:			
— Owners of the Company	(159.2)	(74.5)	119.3
— Non-controlling interests	<u>(0.2)</u>	<u>(0.9)</u>	<u>1.1</u>
	<u><u>(159.4)</u></u>	<u><u>(75.4)</u></u>	<u><u>120.4</u></u>
(Loss)/Earnings per share attributable to owners of the Company for the year	N/A	N/A	N/A
Non-IFRS measure⁽¹⁾:			
Adjusted net profit (unaudited) ⁽²⁾	<u>423.2</u>	<u>310.9</u>	<u>354.5</u>

FINANCIAL INFORMATION

Notes:

- (1) To supplement our historical financial information which are presented in accordance with IFRS, we also use adjusted net profit as an additional financial measure, which is unaudited in nature and is not required by, or presented in accordance with, IFRS. We believe that this non-IFRS measure facilitates comparisons of operating performance from period to period by eliminating potential impacts of items that our management does not consider to be indicative of our operating performance. We believe that this measure provides useful information to investors and others in understanding and evaluating our results of operations in the same manner as it helps our management. However, our presentation of adjusted net profit may not be comparable to similarly titled measures presented by other companies. The use of this non-IFRS measure has limitations as an analytical tool, and you should not consider it in isolation from, or as substitute for analysis of, our results of operations or financial condition as reported under IFRS.
- (2) We define adjusted net profit as net (loss)/profit for the period adjusted by adding back fair value changes on convertible redeemable preferred shares, share-based compensation expenses, interest expenses accrued from redemption liability and listing expenses. We eliminate the potential impacts of these items that our management does not consider to be indicative of our operating performance, as they are either non-cash items or one-off expenses. In particular, fair value changes on convertible redeemable preferred shares, interest expenses accrued from redemption liability and listing expenses will not recur after the Listing. Fair value changes on convertible redeemable preferred shares will not recur after the Listing as each convertible redeemable preferred shares will be converted into one Share upon the Listing subject to additional Shares to be allotted and issued pursuant to the Capitalization Issue. Interest expenses accrued from redemption liability will not recur after the Listing because the redemption liability is in relation to a put option that will extinguish and cease to have effect upon the Listing. See “— Non-IFRS measure.”

FINANCIAL INFORMATION

Revenue

During the Track Record Period, we derived substantially all of our revenue from our development and licensing business and our integrated game publishing and operation business. The following table sets out a breakdown of our revenue by business in absolute amounts and as percentages of our revenue for the periods indicated:

	Year ended December 31,					
	2017		2018		2019	
	<i>RMB million</i>	%	<i>RMB million</i>	%	<i>RMB million</i>	%
Development and licensing	911.2	69.6	601.5	69.2	821.5	77.0
Revenue share	859.4	65.6	537.3	61.8	739.8	69.3
Non-refundable fixed licensing fees	51.8	4.0	64.2	7.4	81.7	7.7
Integrated game publishing and operation	383.5	29.3	265.7	30.5	245.7	23.0
Others ⁽¹⁾	<u>14.5</u>	<u>1.1</u>	<u>2.9</u>	<u>0.3</u>	<u>0.0</u>	<u>0.0</u>
Total	<u><u>1,309.2</u></u>	<u><u>100.0</u></u>	<u><u>870.1</u></u>	<u><u>100.0</u></u>	<u><u>1,067.2</u></u>	<u><u>100.0</u></u>

Note:

(1) Others represent online game technology support and upgrade services we provided to other game developers. See Note 2.22(b) to the Accountant’s Report in Appendix I to this prospectus.

For our development and licensing business, we license our self-developed games to third-party publishers who operate our online games in specific regions or countries within agreed period, and our revenue generally comprises revenue share and, in some cases, non-refundable fixed licensing fees from these third-party publishers. For our integrated game publishing and operation business, we publish games primarily through a diverse range of third-party distribution channels, who collect the gross billings from game players through payment channels, deduct the commissions they are entitled to, and remit the net amounts to us. See “— Critical Accounting Policies and Estimates — Revenue Recognition, Contract Liabilities and Contract Costs.”

FINANCIAL INFORMATION

Revenue by Game

The following table sets out the revenue contribution (both in absolute amount and as a percentage of our total revenue) of our top five revenue-generating games for the periods indicated:

Year ended December 31,											
2017				2018				2019			
Game	Geographic Market	Revenue	%	Game	Geographic Market	Revenue	%	Game	Geographic Market	Revenue	%
		(RMB million)				(RMB million)				(RMB million)	
<i>Fantasy Zhuxian</i> (夢幻誅仙)	Mainland China	456.4	34.9	<i>The Castle in the Sky</i> (天空紀元)	Mainland China	186.2	21.4	<i>Dragon Raja</i> (龍族幻想)	Mainland China	359.5	33.7
	Markets outside of Mainland China	6.8	0.5		Markets outside of Mainland China	35.1	4.0		Markets outside of Mainland China	29.8	2.8
<i>The Castle in the Sky</i> (天空紀元)	Mainland China	262.5	20.0	<i>King Of Kings/ World of Kings</i> (萬王之王3D)	Mainland China	148.1	17.1	<i>King Of Kings/ World of Kings</i> (萬王之王3D)	Mainland China	108.4	10.1
	Markets outside of Mainland China	13.0	1.0		Markets outside of Mainland China	36.0	4.1		Markets outside of Mainland China	223.8	21.0
<i>Love & Sword</i> (御劍情緣)	Mainland China	143.2	10.9	<i>Fantasy Zhuxian</i> (夢幻誅仙)	Mainland China	170.0	19.5	<i>Fantasy Zhuxian</i> (夢幻誅仙)	Mainland China	97.1	9.1
	Markets outside of Mainland China	42.0	3.2		Markets outside of Mainland China	3.5	0.4		Markets outside of Mainland China	4.1	0.4
<i>Power and Honor</i> (權力與榮耀)	Mainland China	111.1	8.6	<i>Love & Sword</i> (御劍情緣)	Mainland China	49.8	5.7	<i>The Castle in the Sky</i> (天空紀元)	Mainland China	56.0	5.2
	Markets outside of Mainland China	51.7	3.9		Markets outside of Mainland China	16.4	1.9		Markets outside of Mainland China	36.3	3.4
<i>Loong Craft</i> (六龍爭霸/六龍御天)	Mainland China	62.1	4.7	<i>Loong Craft</i> (六龍爭霸/ 六龍御天)	Mainland China	36.6	4.2	<i>Love & Sword</i> (御劍情緣)	Mainland China	52.1	4.9
	Markets outside of Mainland China	72.9	5.6		Markets outside of Mainland China	28.3	3.3		Markets outside of Mainland China	9.3	0.9
Total		<u>1,221.7</u>	<u>93.3</u>	Total		<u>710.0</u>	<u>81.6</u>	Total		<u>976.4</u>	<u>91.5</u>

During the Track Record Period, we derived a substantial amount of revenue from certain landmark games, including *Fantasy Zhuxian* (夢幻誅仙), *The Castle in the Sky* (天空紀元), *King of Kings/World of Kings* (萬王之王3D), *Dragon Raja* (龍族幻想) and *Love & Sword* (御劍情緣). These five games in aggregate contributed 70.5%, 74.1% and 91.5% of our revenue in 2017, 2018 and 2019, respectively. See “Risk Factors — A selected few landmark games generated a substantial amount of our revenue each year. If we fail to launch new games with good market reception or extend the lifecycle of our existing top grossing games, we may not be able to maintain or grow our revenue and our business, financial condition and results of operations may be materially and adversely affected.” We expect that our existing and future landmark games will continue to generate the majority of our revenues in the near future. As of the Latest Practicable Date, we had eight mobile games in the pipeline, covering the genres of MMORPG, SLG and others. For further details of our game pipeline, see “Business — Our Games — Our Game Pipeline.”

FINANCIAL INFORMATION

Revenue by Geographic Market

The following table sets out a breakdown of our revenue by geographic market in absolute amounts and as percentages of our revenue for the periods indicated:

	Year ended December 31,					
	2017		2018		2019	
	<i>RMB million</i>	%	<i>RMB million</i>	%	<i>RMB million</i>	%
Market in Mainland China	1,076.2	82.2	678.9	78.0	723.1	67.8
Markets Outside of Mainland China . . .	233.0	17.8	191.2	22.0	344.1	32.2
Hong Kong, Macau and Taiwan	105.5	8.1	88.4	10.2	80.4	7.5
Japan and South Korea	71.3	5.4	69.2	8.0	91.0	8.5
Southeast Asia	47.4	3.6	25.9	3.0	87.9	8.2
Europe and the Americas	8.8	0.7	7.4	0.8	84.8	8.0
Others	—	—	0.3	0.03	—	—
Total	<u>1,309.2</u>	<u>100.0</u>	<u>870.1</u>	<u>100.0</u>	<u>1,067.2</u>	<u>100.0</u>

During the Track Record Period, our revenue generated from markets outside of mainland China was mainly contributed by operations in regions such as Hong Kong, Macau, Taiwan, Southeast Asia, South Korea, Japan, Europe and the Americas. In 2017, 2018 and 2019, revenue generated from our markets outside of mainland China accounted for 17.8%, 22.0% and 32.2% of our total revenue, respectively. Such growing portion was in line with our strategy and aim of introducing excellent games to more people across different regions.

Cost of Revenue

The following table sets out a breakdown of our cost of revenue by nature in absolute amounts and as percentages of our cost of revenue for the periods indicated:

	Year ended December 31,					
	2017		2018		2019	
	<i>RMB million</i>	%	<i>RMB million</i>	%	<i>RMB million</i>	%
Commissions charged by distribution						
channels and payment channels	163.1	59.7	118.5	68.3	83.8	47.2
Revenue share to IP holders	89.4	32.7	36.0	20.7	70.1	39.5
Bandwidth and servers custody fee . . .	4.2	1.5	5.8	3.3	7.6	4.3
Employee benefit expenses	3.9	1.4	6.0	3.5	6.0	3.4
Depreciation and amortization charges .	3.8	1.4	5.5	3.2	7.3	4.1
Others	<u>8.8</u>	<u>3.3</u>	<u>1.8</u>	<u>1.0</u>	<u>2.8</u>	<u>1.5</u>
Total	<u>273.2</u>	<u>100.0</u>	<u>173.6</u>	<u>100.0</u>	<u>177.6</u>	<u>100.0</u>

FINANCIAL INFORMATION

Our cost of revenue primarily consists of (i) commissions charged by distribution channels and payment channels, which we pay for our self-published games under the integrated game publishing and operation business; and (ii) revenue share to IP holders, which we pay for being entitled to use IP in our games and is an amount typically equivalent to 1% to 12% of a game's gross billings or of the amount we collect from third-publishers or distribution channels.

Gross Profit

The following table sets out our gross profit for the periods indicated:

	Year ended December 31,		
	2017	2018	2019
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Gross profit	1,036.0	696.5	889.6
Gross margin	79.1%	80.1%	83.4%

We recorded a relatively high margin primarily due to the fact that our business model is characterized by a relatively larger portion of development and licensing business, the revenue share of which is recorded on net basis, as compared to certain other market participants.

- ***Development and licensing business compared to integrated game publishing and operation business.*** Generally, cost associated with development and licensing business as a percentage to revenue from development and licensing business is lower than cost associated with integrated game publishing and operation business as a percentage to revenue from integrated game publishing and operation business, because commissions charged by distribution channels and payment channels only relates to integrated game publishing and operation business.
- ***Integrated game publishing and operation business in mainland China compared to markets outside of mainland China.*** Generally, cost associated with integrated game publishing and operation business from markets outside of mainland China as a percentage to revenue from integrated game publishing and operation business from markets outside of mainland China is generally lower than cost associated with integrated game publishing and operation business from mainland China market as a percentage to revenue from integrated game publishing and operation business from mainland China market, because distribution channels and payment channels in markets outside of mainland China generally charge a less percentage of a game's gross billings as their commissions compared to distribution channels and payment channels in mainland China market.

FINANCIAL INFORMATION

Research and Development Expenses

The following table sets out a breakdown of the major components of our research and development expenses in absolute amounts and as percentages of our research and development expenses for the periods indicated:

	Year ended December 31,					
	2017		2018		2019	
	<i>RMB million</i>	%	<i>RMB million</i>	%	<i>RMB million</i>	%
Employee benefit expenses	393.2	86.3	251.5	76.8	316.4	81.3
Outsourced technical service expenses .	35.9	7.9	33.8	10.3	30.6	7.9
Depreciation and amortization charges .	17.5	3.8	20.9	6.4	29.6	7.6
Utilities and office expenses	4.5	1.0	7.0	2.1	5.9	1.5
Others	4.4	1.0	14.4	4.4	6.7	1.7
Total	<u>455.5</u>	<u>100.0</u>	<u>327.6</u>	<u>100.0</u>	<u>389.2</u>	<u>100.0</u>

Our research and development expenses primarily consist of (i) employee benefit expenses (including share-based compensation expenses, wages, salaries and bonuses, pension cost and other social security costs, housing benefits and other employee benefit expenses) relating to research and development personnel; (ii) outsourced technical service expenses, which we pay to third-party studios for services including music production and graphic design; and (iii) depreciation and amortization charges in connection with our property, plant and equipment, intangible assets and lease.

Selling and Marketing Expenses

The following table sets out a breakdown of the major components of our selling and marketing expenses in absolute amounts and as percentages of our selling and marketing expenses for the periods indicated:

	Year ended December 31,					
	2017		2018		2019	
	<i>RMB million</i>	%	<i>RMB million</i>	%	<i>RMB million</i>	%
Promotion and advertising expenses . . .	206.5	89.5	67.8	72.4	92.8	81.0
Employee benefit expenses	20.3	8.8	21.6	23.1	11.3	9.9
Depreciation and amortization charges .	1.5	0.6	1.1	1.2	0.7	0.6
Outsourced technical services expenses	0.9	0.4	1.9	2.0	9.0	7.9
Others	1.6	0.7	1.3	1.3	0.7	0.6
Total	<u>230.8</u>	<u>100.0</u>	<u>93.7</u>	<u>100.0</u>	<u>114.5</u>	<u>100.0</u>

Our selling and marketing expenses primarily consist of (i) promotion and advertising expenses, which we pay for online and offline advertising activities to facilitate the implementation of our marketing strategies for our self-published games; and (ii) employee benefit expenses (including wages, salaries and bonuses, pension cost and other social security costs, housing benefits and other employee benefit expenses) relating to selling and marketing personnel.

FINANCIAL INFORMATION

Administrative Expenses

The following table sets out a breakdown of the major components of our administrative expenses in absolute amounts and as percentages of our administrative expenses for the periods indicated:

	Year ended December 31,					
	2017		2018		2019	
	<i>RMB million</i>	%	<i>RMB million</i>	%	<i>RMB million</i>	%
Employee benefit expenses	85.9	86.3	20.7	53.2	25.3	44.2
Other professional consulting fees	3.7	3.7	5.9	15.2	5.1	8.9
Utilities and office expenses	2.6	2.6	2.2	5.7	3.5	6.1
Travelling expenses	1.8	1.8	3.8	9.8	5.1	8.9
Depreciation and amortization charges	1.6	1.6	2.4	6.2	3.6	6.3
Provision for impairment of trade receivables	(0.7)	(0.7)	(0.3)	(0.8)	4.2	7.3
Listing expenses	—	—	—	—	4.9	8.6
Others	4.6	4.7	4.2	10.7	5.5	9.7
Total	<u>99.5</u>	<u>100.0</u>	<u>38.9</u>	<u>100.0</u>	<u>57.2</u>	<u>100.0</u>

Our administrative expenses primarily consist of (i) employee benefit expenses (including share-based compensation expenses, wages, salaries and bonuses, pension cost and other social security costs, housing benefits and other employee benefit expenses) relating to administrative personnel; and (ii) other professional consulting fees we paid to professional parties such as auditors and law firms.

Other Income

In 2017, 2018 and 2019, our other income was RMB35.6 million, RMB17.0 million and RMB14.1 million, respectively. Our other income represented government grants we received.

Other (Losses)/Gains, Net

The following table sets out a breakdown of the major components of our other (losses)/gains for the periods indicated:

	Year ended December 31,		
	2017	2018	2019
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Gains on financial assets at fair value through profit or loss	25.0	31.7	26.6
Foreign exchange (losses)/gains, net	(29.9)	30.9	7.5
Donation	(0.02)	(0.02)	(10.0)
Others	0.1	(4.9)	(0.01)
Total	<u>(4.8)</u>	<u>57.7</u>	<u>24.1</u>

FINANCIAL INFORMATION

Our other (losses)/gains primarily consist of (i) gains on financial assets at fair value through profit or loss, which represent our investments in wealth management products; and (ii) net foreign exchange (losses)/gains, which were incurred primarily due to fluctuations in exchange rates between RMB and USD as we had USD-denominated current deposits and trade and other receivables.

Finance Income/(Costs), Net

Finance income represents interest income from bank deposits, including bank balance and term deposits. Finance costs primarily consist of interest expenses accrued from our redemption liability. See Note 10 of Appendix I to this prospectus.

Fair Value Changes on Convertible Redeemable Preferred Shares

Preferred Shares issued by us are redeemable upon occurrence of certain future events. These instruments are also attached with a conversion option. We designated the Preferred Shares as financial liabilities at fair value through profit or loss. They were initially recognized at fair value. Key valuation assumptions including discount rate, risk-free interest rate, volatility and projections of our future performance specified in Note 25 of Appendix I to this prospectus are used to determine the fair value of Preferred Shares and any changes on these key valuation assumptions will result in fair value changes on convertible redeemable preferred shares. We had fair value changes on convertible redeemable preferred shares of RMB383.6 million, RMB381.3 million and RMB212.5 million in 2017, 2018 and 2019, respectively. For further details, see Note 2.16 and Note 25 of Appendix I to this prospectus.

Income Tax Expenses

We incurred income tax expenses of RMB63.5 million, RMB12.0 million and RMB24.7 million in 2017, 2018 and 2019, respectively. Our income tax expenses consist of current income tax and deferred income tax, and we incurred current income tax of RMB44.3 million, RMB12.0 million and RMB25.2 million in 2017, 2018 and 2019, respectively. Our income tax paid was RMB45.5 million, RMB29.3 million and RMB9.8 million in 2017, 2018 and 2019, respectively. The difference between our current income tax and income tax paid in each year during the Track Record Period was due to the gap between the time we record our income tax and the time we actually pay our income tax as a result of relevant procedural requirements from applicable tax authorities.

As advised by our PRC Legal Adviser, during the Track Record Period and up to the Latest Practicable Date, each of our Group's PRC entities has fulfilled tax registration with relevant tax authorities in accordance with applicable tax laws and regulations in the PRC and has not been subject to any tax dispute, investigation or claim with an material adverse impact on our business operations.

NON-IFRS MEASURE

To supplement our historical financial information which are presented in accordance with IFRS, we also use adjusted net profit as an additional financial measure, which is unaudited in nature and is not required by, or presented in accordance with, IFRS. We believe that this non-IFRS measure facilitates comparisons of operating performance from period to period by eliminating potential impacts of items that our management does not consider to be indicative of our operating performance. We believe that this measure provides useful information to investors and others in understanding and evaluating our results of operations in the same manner as it helps our management. However, our presentation of

FINANCIAL INFORMATION

adjusted net profit may not be comparable to similarly titled measures presented by other companies. The use of this non-IFRS measure has limitations as an analytical tool, and you should not consider it in isolation from, or as substitute for analysis of, our results of operations or financial condition as reported under IFRS.

We define adjusted net profit as net (loss)/profit for the period adjusted by adding back fair value changes on convertible redeemable preferred shares, share-based compensation expenses, interest expenses accrued from redemption liability and listing expenses. We eliminate the potential impacts of these items that our management does not consider to be indicative of our operating performance, as they are either non-cash items or one-off expenses. In particular, fair value changes on convertible redeemable preferred shares, interest expenses accrued from redemption liability and listing expenses will not recur after the Listing. Fair value changes on convertible redeemable preferred shares will not recur after the Listing as each convertible redeemable preferred shares will be converted into one Share upon the Listing subject to additional Shares to be allotted and issued pursuant to the Capitalization Issue. Interest expenses accrued from redemption liability will not recur after the Listing because the redemption liability is in relation to a put option that will extinguish and cease to have effect upon the Listing. The following table reconciles our adjusted net profit for the periods presented to the most directly comparable financial measure calculated and presented in accordance with IFRS, which is (loss)/profit for the year:

	Year ended December 31,		
	2017	2018	2019
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Reconciliation of net (loss)/profit to adjusted net profit			
Net (loss)/profit for the period	(159.4)	(75.4)	120.4
Add:			
Fair value changes on convertible redeemable preferred shares	383.6	381.3	212.5
Share-based compensation expenses	199.0	—	—
Interest expenses accrued from redemption liability . .	—	5.0	16.7
Listing expenses	—	—	4.9
Adjusted net profit (unaudited)	<u>423.2</u>	<u>310.9</u>	<u>354.5</u>

PERIOD-TO-PERIOD COMPARISON OF RESULTS OF OPERATIONS

2019 Compared to 2018

Revenue

Our revenue increased by 22.7% from RMB870.1 million in 2018 to RMB1,067.2 million in 2019, primarily due to the increase of revenue from the development and licensing business, which was partially offset by the decrease of revenue from the integrated game publishing and operation business.

FINANCIAL INFORMATION

Revenue from development and licensing business increased by 36.6% from RMB601.5 million in 2018 to RMB821.5 million in 2019, primarily because the revenue share we received increased from RMB537.3 million in 2018 to RMB739.8 million in 2019 and the non-refundable fixed licensing fees increased from RMB64.2 million in 2018 to RMB81.7 million in 2019. The increase in revenue share we received from third-party publishers was mainly because of the strong performance of our featured new game of 2019, *Dragon Raja* (龍族幻想), which contributed to 36.5% of our total revenue in 2019. In addition, we received more non-refundable fixed licensing fees in 2019 mainly because we recognized incentive fees of RMB10.0 million for the performance of *Love & Sword* (御劍情緣) in mainland China and US\$2.0 million for the performance of *King of Kings/World of Kings* (萬王之王3D) in Korea.

We shifted our focus of integrated game publishing and operation business from mainland China to markets outside of mainland China, in pursuit of higher profitability and opportunities to increase market share globally. Our revenue from integrated game publishing and operation business decreased from RMB265.7 million in 2018 to RMB245.7 million in 2019, primarily due to a decrease in revenue from self-published games in mainland China, while such decrease was partially offset by an increase in revenue from *King of Kings/World of Kings* (萬王之王3D) that we published in Southeast Asia, Europe and the Americas, which was in line with our shifted focus.

Cost of Revenue, Gross Profit and Gross Margin

Our cost of revenue remained relatively stable, being RMB173.6 million in 2018 and RMB177.6 million in 2019, mainly due to an increase in revenue share from us to IP holders, which was in line with the increase in gross billings generated from our games with licensed IP contributed by the strong performance of such games, especially our featured new game of 2019, *Dragon Raja* (龍族幻想). Such increase was partially offset by the decrease in commissions charged by distribution channels and payment channels, which we pay for our self-published games under the integrated game publishing and operation business and such decrease was in line with the decrease in revenue generated from integrated game publishing and operation business as a result of our shifted focus of integrated game publishing and operation business from mainland China to markets outside of mainland China.

Our gross profit increased by 27.7% from RMB696.5 million in 2018 to RMB889.6 million in 2019, and our gross margin was 80.1% and 83.4% in 2018 and 2019, respectively. Our gross profit margin increased in 2019 primarily due to (i) an increase in revenue from our development and licensing business as a percentage of our total revenue: taking into consideration that cost associated with development and licensing business as a percentage to revenue from development and licensing business is generally lower than cost associated with integrated game publishing and operation business as a percentage to revenue from integrated game publishing and operation business, the increase in our gross margin was attributable to an increase in revenue from our development and licensing business as a percentage of our total revenue, from 69.2% to 77.0%, as a result of the strong performance of our featured new game of 2019, *Dragon Raja* (龍族幻想); and (ii) an increase in revenue from integrated game publishing and operation business from markets outside of mainland China as a percentage to our total revenue, taking into consideration that cost associated with integrated game publishing and operation business from markets outside of mainland China as a percentage to revenue from integrated game publishing and operation business from markets outside of mainland China is generally lower than

FINANCIAL INFORMATION

cost associated with integrated game publishing and operation business from mainland China market as a percentage to revenue from integrated game publishing and operation business from mainland China market.

Research and Development Expenses

Our research and development expenses increased by 18.8% from RMB327.6 million in 2018 to RMB389.2 million in 2019, primarily due to an increase in employee benefit expenses relating to research and development personnel as a result of an increased number of research and development personnel to satisfy our business expansion.

Selling and Marketing Expenses

Our selling and marketing expenses increased by 22.2% from RMB93.7 million in 2018 to RMB114.5 million in 2019, primarily due to an increase in promotion and advertising expenses because we launched one self-published game in 2018 in mainland China while we published *King of Kings/World of Kings* (萬王之王3D) through distribution channels in 2019 to Southeast Asia, Europe and the Americas. Such increase was partially offset by a decrease in employee benefit expenses relating to selling and marketing personnel due to the decreased number of selling and marketing personnel as we focus less on the integrated game publishing and operation business in mainland China in pursuit of higher profitability and opportunities to increase market share globally.

Administrative Expenses

Our administrative expenses increased by 47.0% from RMB38.9 million in 2018 to RMB57.2 million in 2019, primarily due to (i) increase in employee benefit expenses relating to administrative personnel as a result of increased performance-based bonuses to employees, which was in line with the increase in revenue generated from our games, (ii) increase in impairment of trade receivables, which was in line with the increase in trade receivables and (iii) increase in listing expenses.

Other Income

Our other income decreased by 17.1% from RMB17.0 million in 2018 to RMB14.1 million in 2019, due to a decrease in government grants.

Other (Losses)/Gains, Net

Our net other gains decreased by 58.2% from RMB57.7 million in 2018 to RMB24.1 million in 2019, primarily because our net foreign exchange gains decreased in 2019 due to the lesser extent of appreciation of USD against RMB from our USD-denominated current deposits and trade receivables. Also we made a donation in 2019 which was non-recurring in nature.

Operating Profit

As a result of the foregoing, our operating profit was RMB311.0 million in 2018, compared to an operating profit of RMB366.9 million in 2019.

FINANCIAL INFORMATION

Finance Income/(Costs), Net

We had net finance costs of RMB9.3 million compared to our net finance income of RMB6.9 million in 2018, mainly because of the decrease in our interest income from bank deposits and an increase in interest expenses accrued from our redemption liability. See “— Discussion of Certain Key Balance Sheet Items — Other Non-current Liabilities.”

Fair Value Changes on Convertible Redeemable Preferred Shares

Our fair value changes on convertible redeemable preferred shares decreased by 44.3% from RMB381.3 million in 2018 to RMB212.5 million in 2019, primarily because the valuation of our Company increased less in 2019 as compared to that in 2018.

Income Tax Expenses

Our income tax expenses increased significantly from RMB12.0 million in 2018 to RMB24.7 million in 2019, which was in line with the increase in our taxable income.

Loss/Profit for the Year

As a result of the foregoing, we had a profit of RMB120.4 million in 2019, compared to a loss of RMB75.4 million in 2018.

2018 Compared to 2017

Revenue

Our revenue decreased by 33.5% from RMB1,309.2 million in 2017 to RMB870.1 million in 2018, primarily due to the decrease in revenue from the development and licensing business.

Revenue from development and licensing business decreased by 34.0% from RMB911.2 million in 2017 to RMB601.5 million in 2018, primarily because the revenue share we received decreased from RMB859.4 million in 2017 to RMB537.3 million in 2018. Such decrease was partially offset by the increase in the non-refundable fixed licensing fees from RMB51.8 million in 2017 to RMB64.2 million in 2018. Revenue share we received from third-party publishers decreased in 2018 mainly because our featured new game of 2018, *King of Kings/World of Kings* (萬王之王3D), launched relatively late in the year. Also, in 2018, certain of our previous main revenue contributors reached the maturity stage or even recession stage in their life cycle and contributed less revenue than in 2017. The increase in the non-refundable fixed licensing fees was attributable to the increased number of regions where we distributed our games, from 21 in 2017 to 28 in 2018.

Revenue from integrated game publishing and operation business decreased by 30.7% from RMB383.5 million in 2017 to RMB265.7 million in 2018, mainly because we launched three new self-published games in mainland China in 2017 while we launched one in 2018. Revenue from the three self-published games launched in 2017 significantly decreased in 2018 as they passed their growth stage and such decrease was not fully covered by the revenue generated from the new one published in 2018.

FINANCIAL INFORMATION

Cost of Revenue, Gross Profit and Gross Margin

Our cost of revenue decreased by 36.5% from RMB273.2 million in 2017 to RMB173.6 million in 2018. The decrease in our cost of revenue was mainly due to (i) a decrease in commissions charged by distribution channels and payment channels, which was in line with the decrease in revenue generated from integrated game publishing and operation business as we launched fewer self-published games in 2018; and (ii) a decrease in revenue share from us to IP holders, mainly as a result of a decrease in revenue share from us to the holder of the *Zhuxian* (誅仙) IP, which was in line with the decrease in revenue generated from *Fantasy Zhuxian* (夢幻誅仙) in 2018.

Our gross profit decreased by 32.8% from RMB1,036.0 million in 2017 to RMB696.5 million in 2018, and our gross margin was 79.1% and 80.1% in 2017 and 2018, respectively. Our gross profit margin increased in 2018 primarily due to (i) a decrease in revenue share from us to IP holders as a percentage of revenue, because of a decrease in revenue generated from games with licensed IP as a percentage of our total revenue; and (ii) an increase in revenue from integrated game publishing and operation business from markets outside of mainland China as a percentage to our total revenue, taking into consideration that cost associated with integrated game publishing and operation business from markets outside of mainland China as a percentage to revenue from integrated game publishing and operation business from markets outside of mainland China is generally lower than cost associated with integrated game publishing and operation business from mainland China market as a percentage to revenue from integrated game publishing and operation business from mainland China market, despite a decrease in revenue from our development and licensing business as a percentage of our total revenue.

Research and Development Expenses

Our research and development expenses decreased by 28.1% from RMB455.5 million in 2017 to RMB327.6 million in 2018, primarily because we had one-off share-based compensation expenses of RMB151.2 million relating to certain research and development staff in 2017.

Selling and Marketing Expenses

Our selling and marketing expenses decreased by 59.4% from RMB230.8 million in 2017 to RMB93.7 million in 2018, primarily due to the decrease in promotion and advertising expenses, which was in line with the decrease in revenue generated from integrated game publishing and operation business as we launched fewer self-published games in 2018.

Administrative Expenses

Our administrative expenses decreased by 60.9% from RMB99.5 million in 2017 to RMB38.9 million in 2018, primarily due to the decrease in our employee benefit expenses as we had one-off share-based compensation expenses of RMB47.8 million relating to certain administrative staff in 2017. Also, our performance-based bonuses to employees decreased in 2018 and such decrease was in line with the decrease in revenue generated from our games.

Other Income

Our other income decreased by 52.2% from RMB35.6 million in 2017 to RMB17.0 million in 2018, due to a decrease in government grants.

FINANCIAL INFORMATION

Other (Losses)/Gains, Net

We had net other gains of RMB57.7 million in 2018, compared to the net other losses of RMB4.8 million in 2017, mainly because we had net foreign exchange losses of RMB29.9 million in 2017 while we had net foreign exchange gains of RMB30.9 million in 2018 due to the appreciation of USD against RMB from our USD-denominated current deposits and trade receivables. There was also an increase in our gains on financial assets at fair value through profit or loss related to wealth management products.

Operating Profit

As a result of foregoing, our operating profit was RMB281.0 million in 2017, compared to an operating profit of RMB311.0 million in 2018.

Finance Income, Net

Our net finance income increased from RMB6.7 million in 2017 to RMB6.9 million in 2018, primarily due to the increase in our interest income from bank deposits, partially offset by an increase in interest expenses accrued from our redemption liability. See “— Discussion of Certain Key Balance Sheet Items — Other Non-current Liabilities.”

Fair Value Changes on Convertible Redeemable Preferred Shares

Our fair value changes on convertible redeemable preferred shares decreased from RMB383.6 million in 2017 to RMB381.3 million in 2018, primarily because the valuation of our Company increased less in 2018 as compared to that in 2017.

Income Tax Expenses

Our income tax expenses decreased by 81.1% from RMB63.5 million in 2017 to RMB12.0 million in 2018, mainly because we recorded more expenses that are non-deductible for taxation purpose in 2017.

Loss/Profit for the Year

As a result of the foregoing, we had a loss of RMB75.4 million in 2018, compared to a loss of RMB159.4 million in 2017.

FINANCIAL INFORMATION

DISCUSSION OF CERTAIN KEY BALANCE SHEET ITEMS

The following table sets out selected information from our statements of financial position as of the dates indicated:

	As of December 31,		
	2017	2018	2019
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Total non-current assets	84.6	114.8	122.2
Total current assets	1,632.0	1,433.9	1,781.0
Total assets	1,716.6	1,548.7	1,903.2
Total equity attributable to owners of the Company	353.5	54.0	170.1
Total non-controlling interests	(0.2)	(1.1)	—
Total equity	353.3	52.9	170.1
Total non-current liabilities	941.8	1,225.2	1,466.7
Total current liabilities	421.5	270.6	266.4
Total liabilities	1,363.3	1,495.8	1,733.1
Total equity and liabilities	1,716.6	1,548.7	1,903.2
Net current assets	1,210.5	1,163.3	1,514.6

The following table sets out our non-current assets and liabilities as of the dates indicated:

	As of December 31,		
	2017	2018	2019
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Non-current assets			
Property, plant and equipment	9.0	9.7	8.7
Right-of-use assets	14.0	38.7	42.0
Intangible assets	34.7	33.6	44.0
Prepayment, other receivables and other assets	20.3	26.1	20.3
Deferred tax assets	6.6	6.7	7.2
Total non-current assets	84.6	114.8	122.2
Non-current liabilities			
Contract liabilities	25.9	13.7	10.2
Lease liabilities	0.4	10.3	22.6
Deferred tax liabilities	0.01	—	—
Convertible redeemable preferred shares	915.5	1,043.7	1,259.7
Other non-current liabilities	—	157.5	174.2
Total non-current liabilities	941.8	1,225.2	1,466.7
Net non-current liabilities	857.2	1,110.4	1,344.5

FINANCIAL INFORMATION

The following table sets out our current assets and liabilities as of the dates indicated:

	As of December 31,			As of May 31,
	2017	2018	2019	2020
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i> <i>(unaudited)</i>
Current assets				
Trade receivables	294.1	280.7	545.8	382.6
Prepayment, other receivables and other assets	61.3	33.6	33.2	42.4
Financial assets at fair value through profit or loss	663.7	531.2	331.0	584.4
Restricted cash	—	—	—	2.9
Term deposits	229.3	—	142.7	0.4
Cash and cash equivalents	<u>383.6</u>	<u>588.4</u>	<u>728.3</u>	<u>638.8</u>
Total current assets	<u>1,632.0</u>	<u>1,433.9</u>	<u>1,781.0</u>	<u>1,651.5</u>
Current liabilities				
Trade and other payables	299.5	164.9	156.9	183.0
Contract liabilities	81.0	66.9	62.4	55.0
Current income tax liabilities	33.4	16.3	32.5	31.1
Lease liabilities	<u>7.6</u>	<u>22.5</u>	<u>14.6</u>	<u>27.1</u>
Total current liabilities	<u>421.5</u>	<u>270.6</u>	<u>266.4</u>	<u>296.2</u>
Net current assets	<u>1,210.5</u>	<u>1,163.3</u>	<u>1,514.6</u>	<u>1,355.3</u>

Compared to our net current assets of RMB1,514.6 million as of December 31, 2019, our net current assets was RMB1,355.3 million as of May 31, 2020, primarily due to our payment for the dividend we declared on February 28, 2020.

Right-of-use Assets

IFRS 16 introduces a model where a right-of-use asset and a corresponding liability have to be recognized for all leases by lessees on the statement of financial position except for short-term leases and leases of low-value assets. Our right-of-use assets primarily represent leases of certain office properties from third parties. Our right-of-use assets increased significantly from RMB14.0 million as of December 31, 2017 to RMB38.7 million as of December 31, 2018, and further increased to RMB42.0 million as of December 31, 2019, primarily due to the increased number of leased properties to satisfy our operational needs.

FINANCIAL INFORMATION

Intangible Assets

Our intangible assets consist of (i) copyrights and game licenses; (ii) software; and (iii) trademark and domain names. The following table sets out our intangible assets as of the dates indicated:

	<u>As of December 31,</u>		
	<u>2017</u>	<u>2018</u>	<u>2019</u>
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Copyrights and game licenses	25.0	24.9	25.0
Software	9.5	8.5	18.9
Trademark and domain names	<u>0.2</u>	<u>0.2</u>	<u>0.1</u>
Total	<u><u>34.7</u></u>	<u><u>33.6</u></u>	<u><u>44.0</u></u>

Our intangible assets remained relatively stable, being RMB34.7 million as of December 31, 2017 and RMB33.6 million as of December 31, 2018. Our intangible assets increased to RMB44.0 million as of December 31, 2019, primarily due to the increase in software for our use of Unreal Engine 4.

Amortization charges in relation to intangible assets were expensed in cost of revenue, research and development expenses and administrative expenses in the combined statements of profit or loss.

FINANCIAL INFORMATION

Prepayment, Other Receivables and Other Assets

Our prepayments, other receivables and other assets primarily consist of (i) recoverable value-added tax; (ii) prepaid revenue share to IP holders; (iii) rental deposits; and (iv) contract fulfillment costs, which primarily consist of unamortized commissions charged by third-party distribution channels. The following table sets out our prepayments, other receivables and other assets as of the dates indicated:

	As of December 31,		
	2017	2018	2019
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Non-current			
Prepaid revenue share to IP holders	18.9	18.9	18.9
Rental deposits	—	6.1	—
Others	1.4	1.1	1.4
Total non-current prepayments, other receivables and other assets	20.3	26.1	20.3
Current			
Recoverable value-added tax	33.8	13.7	3.6
Contract fulfillment costs	12.5	11.7	13.4
Rental deposits	4.0	0.7	6.8
Interest receivables	1.9	0.7	1.5
Prepaid advertising expenses	1.8	0.1	0.01
Prepaid revenue share to IP holders	0.03	0.2	0.2
Prepayment for listing expenses	—	—	1.3
Others	7.3	6.5	6.4
Total current prepayments, other receivables and other assets	61.3	33.6	33.2
Total prepayments, other receivables and other assets	81.6	59.7	53.5

Our prepayments, other receivables and other assets decreased by 26.8% from RMB81.6 million as of December 31, 2017 to RMB59.7 million as of December 31, 2018, mainly because we recorded larger amount of recoverable value-added tax as of December 31, 2017 due to the intra-group purchase of services in 2017 and such recoverable value-added tax was partially deducted in 2018 according to relevant tax policies. Such decrease was partially offset by an increase in our rental deposits as we signed new lease to satisfy our operational needs and substantially all of our current rental deposits turned into non-current ones as a result of our renewed lease.

Our prepayments, other receivables and other assets further decreased from RMB59.7 million as of December 31, 2018 to RMB53.5 million as of December 31, 2019, primarily because we had smaller amount of recoverable value-added tax as of December 31, 2019 because the recoverable value-added tax was further deducted in 2019 according to relevant tax policies.

FINANCIAL INFORMATION

Contract Liabilities

Our contract liabilities primarily consist of (i) the unamortized balance of the non-refundable fixed licensing fees; (ii) the unamortized balance of sales of in-game virtual items; and (iii) revenue share we received from third-party publishers in advance. See “— Critical Accounting Policies and Estimates — Revenue Recognition, Contract Liabilities and Contract Costs — Contract Liabilities and Contract Costs.”

The following table sets out our contract liabilities as of the dates indicated:

	As of December 31,		
	2017	2018	2019
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Current			
Unamortized balance of the non-refundable fixed licensing fees	43.7	35.4	25.5
Unamortized revenue from sales of in-game virtual items	30.8	26.7	34.3
Revenue share received in advance	<u>6.5</u>	<u>4.8</u>	<u>2.6</u>
Total current contract liabilities	<u>81.0</u>	<u>66.9</u>	<u>62.4</u>
Non-current			
Unamortized balance of the non-refundable fixed licensing fees	<u>25.9</u>	<u>13.7</u>	<u>10.2</u>
Total non-current contract liabilities	<u>25.9</u>	<u>13.7</u>	<u>10.2</u>
Total contract liabilities	<u>106.9</u>	<u>80.6</u>	<u>72.6</u>

Our contract liabilities decreased by 24.6% from RMB106.9 million as of December 31, 2017 to RMB80.6 million as of December 31, 2018 and further decreased to RMB72.6 million as of December 31, 2019, primarily due to the decrease in unamortized balance of the non-refundable fixed licensing fees, as the portion of such fees that needs to be amortized decreased.

FINANCIAL INFORMATION

Lease Liabilities

IFRS 16 introduced a single lessee accounting model, whereby assets and liabilities are recognized for all leases on the balance sheet, subject to certain exceptions. Our lease liabilities include the net present value of our lease payments as specified in Note 2.26 of Appendix I to this prospectus. The following table sets out our lease liabilities as of the dates indicated:

	As of December 31,		
	2017	2018	2019
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Current lease liabilities	7.6	22.5	14.6
Non-current lease liabilities	<u>0.4</u>	<u>10.3</u>	<u>22.6</u>
Total	<u><u>8.0</u></u>	<u><u>32.8</u></u>	<u><u>37.2</u></u>

Our lease liabilities increased significantly from RMB8.0 million as of December 31, 2017 to RMB32.8 million as of December 31, 2018 and further increased to RMB37.2 million as of December 31, 2019, primarily due to the increased number of leased properties to satisfy our operational needs.

Convertible Redeemable Preferred Shares

Preferred Shares issued by us are redeemable upon occurrence of certain future events. Preferred Shares were classified as non-current liabilities unless the Preferred Shares holders can demand the Company to redeem Preferred Shares within 12 months after the end of the reporting period.

Our convertible redeemable preferred shares increased by 14.0% from RMB915.5 million as of December 31, 2017 to RMB1,043.7 million as of December 31, 2018, primarily due to the increase in fair value of the Preferred Shares held by Perfect World and Linzhi Lichuang in 2018 as a result of the increase in valuation of our Company, which was partially offset by the decrease in fair value of the Preferred Shares held by Perfect World as a result of (i) Perfect World's transfer of certain Preferred Shares, see “— Discussion of Certain Key Balance Sheet Items — Other Non-current Liabilities” and (ii) the dividend declared and paid by us to Perfect World.

Our convertible redeemable preferred shares increased by 20.7% from RMB1,043.7 million as of December 31, 2018 to RMB1,259.7 million as of December 31, 2019, primarily due to the increase in fair value of the Preferred Shares held by Perfect World and Linzhi Lichuang in 2019 as a result of the increase in valuation of our Company.

Other Non-current Liabilities

We had no other non-current liabilities as of December 31, 2017, while we had a redemption liability in relation to a put option granted to the then shareholder of Tianjin Loong of RMB157.5 million as of December 31, 2018. On August 24, 2018, Beijing Loong and Perfect World entered into an equity transfer agreement, pursuant to which Perfect World agreed to transfer 4.49% of equity interests in Tianjin Loong (“Transferred Capitals”), to Beijing Loong at a consideration of RMB157.2 million (“Transaction Price”). After the closing of the transaction, the Transferred Capitals were held as capitals with a put option to be repurchased by Tianjin Loong in the event that a QIPO as defined in Note 25 of

FINANCIAL INFORMATION

Appendix I to this prospectus shall fail to take place within the period of four years from the date of payment of the Transaction Price, at Redemption Price as defined in Note 26 of Appendix I to this prospectus. Accordingly, we recognized such redemption liability at present value of the Redemption Price in the amount of RMB152.5 million. The difference between such amount and the fair value of the Transferred Capitals was treated as deemed capital contribution. The interests accrued on the redemption liability were recorded as finance costs.

Our other non-current liabilities increased from RMB157.5 million as of December 31, 2018 to RMB174.2 million as of December 31, 2019, primarily due to the interest expenses accrued from such redemption liability.

Trade Receivables

Our trade receivables primarily consist of (i) the revenue share and non-refundable fixed licensing fees that we are entitled to from our third-party publishers but are yet to be paid to us under our development and licensing business and (ii) the sale proceeds that have been collected by our third-party distribution channels from game players but are yet to be paid to us under our integrated game publishing and operation business. We provide allowance for impairment of trade receivables based on expected credit loss.

The following table sets out our trade receivables as of the date indicated:

	As of December 31,		
	2017	2018	2019
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Trade receivables	297.5	283.8	553.1
Less: allowance for impairment of trade receivables	(3.4)	(3.1)	(7.3)
Trade receivables, net	294.1	280.7	545.8

Despite the decrease in revenue generated by our games in 2018, our net trade receivables remained relatively stable, being RMB294.1 million as of December 31, 2017 and RMB280.7 million as of December 31, 2018, mainly because the revenue share for *King of Kings/World of Kings* (萬王之王3D) in 2018 to be received by us from Tencent was not fully settled before the year end due to the fact that *King of Kings/World of Kings* (萬王之王3D) launched relatively late in the year. Our net trade receivables increased significantly from RMB280.7 million as of December 31, 2018 to RMB545.8 million as of December 31, 2019, which was in line with our revenue growth in 2019, especially because our revenue related to *Dragon Raja* (龍族幻想) launched in July 2019 was not fully settled before the year end.

FINANCIAL INFORMATION

The following table sets out an ageing analysis of our trade receivables based on the revenue recognition date as of the dates indicated:

	As of December 31,		
	2017	2018	2019
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Up to three months	208.7	192.2	231.0
Attributable to related parties	89.4	138.0	140.8
Attributable to third parties	119.3	54.2	90.2
Three to six months	62.3	58.5	282.4
Attributable to related parties	25.8	35.9	259.2
Attributable to third parties	36.5	22.6	23.2
Six months to one year	9.8	33.1	39.5
Attributable to related parties	4.1	4.2	24.2
Attributable to third parties	5.7	28.9	15.3
Over one year	16.7	—	0.2
Attributable to related parties	16.7	—	—
Attributable to third parties	0.0	—	0.2
Total	<u>297.5</u>	<u>283.8</u>	<u>553.1</u>

During the Track Record Period, a substantial portion of our trade receivables were outstanding for less than one year. To manage risks arising from trade receivables, we maintain frequent communications with third-party publishers and distribution channels to ensure effective credit control. Also, we have policies in place to ensure that credit terms are made to customers with an appropriate credit history and the management performs ongoing credit evaluations of them. We generally offer a relatively long credit term of 90 to 150 days to our customers mainly because we are at the development end of our industry value chain and the gross billings from game players naturally go through other industry participants before reaching us. The good credit history of our customers and our stable relationship with them also contribute to the relatively long credit term to them, and we believe that the credit risk inherent in our outstanding trade receivable balances due from them is low. Our senior management regularly reviews the recoverability of our overdue balances and will make allowance for impairment of these trade receivables based on assumptions on risk of default and expected credit loss rates. Each month, our finance department will report trade receivables past due for more than one month to the manager of the relevant project who will be in charge of collection of trade receivables. The outstanding balance of uncollectible trade receivables will be written off subject to our senior management's approval.

In 2017, 2018 and 2019, our trade receivables turnover days were 104, 120 and 139, respectively. During the Track Record Period, the average turnover days of trade receivables are generally within the credit term granted to our third-party distribution channels and third-party publishers. We recorded longer average turnover days of trade receivables in 2018 than in 2017, primarily because of a larger decrease in our revenue than in our trade receivables. We recorded longer average turnover days of trade receivables in 2019 than in 2018, primarily because of a larger increase in our trade receivables than in our revenue.

FINANCIAL INFORMATION

Approximately RMB136.0 million, or 100.0%, of our trade receivables attributable to related parties as of December 31, 2017, and approximately RMB161.5 million, or 100.0%, of our trade receivables attributable to third parties as of December 31, 2017 had been settled as of December 31, 2018. As a result, RMB297.5 million, or 100.0%, of our trade receivables as of December 31, 2017 had been settled as of December 31, 2018. Approximately RMB178.1 million, or 100.0%, of our trade receivables attributable to related parties as of December 31, 2018, and approximately RMB105.5 million, or 99.8%, of our trade receivables attributable to third parties as of December 31, 2018 had been settled as of December 31, 2019. As a result, approximately RMB283.6 million, or 99.9%, of our trade receivables as of December 31, 2018 had been settled as of December 31, 2019. Approximately RMB404.6 million, or 95.4%, of our trade receivables attributable to related parties as of December 31, 2019, and approximately RMB105.0 million, or 81.5%, of our trade receivables attributable to third parties as of December 31, 2019 had been settled as of the Latest Practicable Date. As a result, approximately RMB509.6 million, or 92.1%, of our trade receivables as of December 31, 2019 had been settled as of the Latest Practicable Date. Based on our communications with third-party publishers and distribution channels as of the Latest Practicable Date and our previous experience, we are of the view that all overdue amounts which remained unsettled as of the Latest Practicable Date, are recoverable.

Financial Assets at Fair Value through Profit or Loss

During the Track Record Period, our financial assets at fair value through profit or loss all came from our investments in wealth management products issued by large reputable commercial banks in the PRC, such as Industrial Bank, China Everbright Bank and China Merchants Bank. These wealth management products invest principally in low risk and liquid instruments that are quoted on the interbank market or exchanges in China, including among others, treasury bonds, corporate bonds, medium-term notes and interbank deposits. In general, neither the principal or return of any wealth management products is protected or guaranteed by the issuing bank. During the Track Record Period, for each of our investment in wealth management products, we received 100% of our principal back. Our wealth management products had an effective rate of return of 2.78% to 6.30% and a maturity of less than 6 months generally during the Track Record Period. We purchase such wealth management products to manage our short-term liquidity. We actively purchase and redeem wealth management products as part of our treasury function. In 2017, 2018 and 2019, we purchased RMB3.7 billion, RMB3.1 billion and RMB2.6 billion of wealth management products, respectively, and obtained proceeds from disposal of wealth management products of RMB3.3 billion, RMB3.2 billion and RMB2.8 billion, respectively. Our financial assets at fair value through profit or loss decreased by 20.0% from RMB663.7 million as of December 31, 2017 to RMB531.2 million as of December 31, 2018 and further decreased by 37.7% to RMB331.0 million as of December 31, 2019, primarily because certain bank-issued wealth management products matured and were redeemed by us.

We are exposed to credit risk in relation to such investments that are measured at fair value through profit or loss. The maximum exposure at the end of the reporting period is the carrying amount of these investments. Our dedicated managers are in charge of purchasing, monitoring and adjusting our wealth management products, evaluating the risk associated and our liquidity, preparing analysis and reporting to the management team periodically. They put forward plans that include the portfolio to be purchased and the risk associated in respect of the return, the term of the products and the analysis of our overall liquidity. For details of our investment policies and internal control procedures relating to such investments, see “Business — Risk Management and Internal Control — Investment Risk Management.”

FINANCIAL INFORMATION

Trade and Other Payables

The following table sets out a breakdown of our trade and other payables as of the dates indicated:

	As of December 31,		
	2017	2018	2019
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Trade payables	153.4	98.8	84.8
Payroll liabilities	99.5	49.6	51.0
Tax payables	31.8	7.4	10.1
Others	<u>14.8</u>	<u>9.1</u>	<u>11.0</u>
Total	<u>299.5</u>	<u>164.9</u>	<u>156.9</u>

Trade Payables

Our trade payables primarily consist of (i) payables to IP holders as revenue share; (ii) payables to promotion and advertising service providers; and (iii) payables to outsourcing partners. The following table sets out our trade payables as of the date indicated:

	As of December 31,		
	2017	2018	2019
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Payables to IP holders as revenue share	126.5	95.5	73.1
Payables to promotion and advertising service providers	23.6	2.0	9.7
Payables to outsourcing partners	2.7	0.6	1.2
Others	<u>0.6</u>	<u>0.7</u>	<u>0.8</u>
Trade payables, net	<u>153.4</u>	<u>98.8</u>	<u>84.8</u>

Our trade payables decreased by 35.6% from RMB153.4 million as of December 31, 2017 to RMB98.8 million as of December 31, 2018, mainly because (i) we have settled a payment to Perfect World as revenue share from us to IP holders; and (ii) a decrease in the service fee payable to promotion and advertising service providers which was in line with the decreased number of our new self-published games. Our trade payables further decreased by 14.2% from RMB98.8 million as of December 31, 2018 to RMB84.8 million as of December 31, 2019, primarily because we have settled payments to Perfect World as revenue share from us to IP holders, which was partially offset by an increase in payables to promotion and advertising service providers for the launch of *King of Kings/World of Kings* (萬王之王 3D) in Southeast Asia, Europe and the Americas in 2019.

FINANCIAL INFORMATION

The following table sets out an ageing analysis of our trade payables based on the recognition date as of the dates indicated:

	As of December 31,		
	2017	2018	2019
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Up to six months	52.3	20.3	72.9
Six months to one year	90.5	23.4	10.3
Over one year	<u>10.6</u>	<u>55.1</u>	<u>1.6</u>
Total	<u><u>153.4</u></u>	<u><u>98.8</u></u>	<u><u>84.8</u></u>

In 2017, 2018 and 2019, our trade payables turnover days were 148, 262 and 186, respectively. The increase in our trade payables turnover days from 2017 to 2018 was mainly in line with the increases in our trade receivables turnover days, as we generally settle with our IP holders and service suppliers after receiving payments from our customers. However, our trade payables turnover days decreased from 2018 to 2019 despite the increased trade receivable turnover days, primarily because we settled payments to Perfect World as revenue share over the previous year from us to the holder of the *Zhuxian* (誅仙) IP.

Approximately RMB18.9 million, or 22.3%, of our trade payables as of December 31, 2019 had been settled as of May 31, 2020.

Payroll Liabilities

Our payroll liabilities decreased by 50.2% from RMB99.5 million as of December 31, 2017 to RMB49.6 million as of December 31, 2018, primarily due to a decrease in our performance-based bonuses to employees which was in line with the decrease in revenue generated from our games. Our payroll liabilities increased to RMB51.0 million as of December 31, 2019, primarily due to an increase in our performance-based bonuses to employees which was in line with the increase in revenue generated from our games. Such increase was partially offset by the decrease in salary payables as of December 31, 2019 due to the adjustment of payday from 10th day to the end of each month which came into effect in January 2019.

Tax Payables

Tax payables mainly represent VAT payables and individual income tax payables. Our tax payables decreased by 76.7% from RMB31.8 million as of December 31, 2017 to RMB7.4 million as of December 31, 2018, primarily due to a decrease in individual income tax payables as a result of the decrease in our performance-based bonuses to employees. Our tax payables increased by 36.5% from RMB7.4 million as of December 31, 2018 to RMB10.1 million as of December 31, 2019, primarily due to an increase in individual income tax payables as a result of the increase in our performance-based bonuses to employees.

FINANCIAL INFORMATION

KEY FINANCIAL RATIOS

The following table sets out our key financial ratios for the periods indicated:

	Year ended December 31,		
	2017	2018	2019
Revenue growth (%)	N/A	(33.5)	22.7
Gross margin ⁽¹⁾ (%)	79.1	80.1	83.4
Net margin ⁽²⁾ (%)	(12.2)	(8.7)	11.3
Non-IFRS measure: adjusted net margin ⁽³⁾ (%)	32.3	35.7	33.2

Notes:

- (1) Gross margin equals gross profit divided by revenue for the period and multiplied by 100%.
- (2) Net margin equals net (loss)/profit divided by revenue for the period and multiplied by 100%.
- (3) Adjusted net margin equals adjusted net profit for the period divided by revenue for the period and multiplied by 100%.

See “— Period-to-Period Comparison of Results of Operations — 2019 Compared to 2018” and “— Period-to-Period Comparison of Results of Operations — 2018 Compared to 2017” for a discussion of the factors affecting our key financial ratios and results of operations during the respective periods.

LIQUIDITY AND CAPITAL RESOURCES

We have historically funded our cash requirements principally from cash generated from operations, and to a lesser extent, equity and debt financing.

As of December 31, 2017, 2018 and 2019, we had cash and cash equivalents of RMB383.6 million, RMB588.4 million and RMB728.3 million, respectively. Going forward, we believe that our liquidity requirements will be satisfied by using a combination of cash generated from operating activities, other funds raised from the capital markets from time to time and the net proceeds received from the Global Offering.

FINANCIAL INFORMATION

Cash Flow

The following table sets out our cash flows for the periods indicated:

	Year ended December 31,		
	2017	2018	2019
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Net cash generated from operating activities	625.7	135.4	100.6
Net cash (used in)/generated from investing activities .	(621.1)	396.9	58.4
Net cash generated from/(used in) financing activities .	37.8	(341.9)	(24.1)
Net increase in cash and cash equivalents	42.4	190.4	134.9
Cash and cash equivalents at the beginning of the year	371.4	383.6	588.4
Exchange (losses)/gains on cash and cash equivalents .	(30.2)	14.4	5.0
Cash and cash equivalents at the end of the year	383.6	588.4	728.3

Net Cash Generated from Operating Activities

Net cash generated from operating activities primarily comprises our loss/profit before income tax for the period adjusted by (i) non-cash and non-operating items; and (ii) changes in working capital.

In 2019, our net cash generated from operating activities was RMB100.6 million, which was primarily attributable to our profit before income tax of RMB145.1 million, as adjusted by (i) the add-back of non-cash and non-operating items, primarily comprising fair value changes on convertible redeemable preferred shares of RMB212.5 million and depreciation of right-of-use assets of RMB23.7 million, partially offset by fair value gain in wealth management products of RMB26.6 million; and (ii) changes in working capital, which primarily comprised a decrease in prepayment, other receivables and other assets of RMB7.3 million, partially offset by an increase in trade receivables of RMB269.3 million, a decrease in contract liabilities of RMB8.0 million and a decrease in trade and other payables of RMB7.5 million.

In 2018, our net cash generated from operating activities was RMB135.4 million, which was primarily attributable to our loss before income tax of RMB63.4 million, as adjusted by (i) the add-back of non-cash and non-operating items, primarily comprising fair value changes on convertible redeemable preferred shares of RMB381.3 million, partially offset by fair value gain in wealth management products of RMB31.7 million and net exchange gain of RMB30.9 million; and (ii) changes in working capital, which primarily comprised a decrease in prepayment, other receivables and other assets of RMB19.6 million and a decrease in trade receivables of RMB13.7 million, partially offset by a decrease in trade and other payables of RMB127.0 million and a decrease in contract liabilities of RMB26.3 million.

In 2017, our net cash generated from operating activities was RMB625.7 million, which was primarily attributable to our loss before income tax of RMB95.9 million, as adjusted by (i) the add-back of non-cash and non-operating items, primarily comprising fair value changes on convertible redeemable preferred shares of RMB383.6 million, share-based compensation expenses of RMB199.0 million and net exchange loss of RMB29.9 million, partially offset by fair value gain in wealth management products of RMB25.0 million; and (ii) changes in working capital, which primarily comprised a decrease in trade receivables of RMB160.5 million and an increase in trade and other payables of RMB30.4 million, partially offset by an increase in prepayment, other receivables and other assets of RMB35.0 million.

FINANCIAL INFORMATION

Net Cash (Used in)/Generated from Investing Activities

In 2019, our net cash generated from investing activities was RMB58.4 million, which was primarily attributable to proceeds from maturity of wealth management products classified as fair value through profit or loss assets of RMB2,776.7 million and investment income from wealth management products of RMB25.2 million, partially offset by purchases of wealth management products classified as fair value through profit or loss assets of RMB2,575.0 million and purchases of term deposits of RMB142.7 million.

In 2018, our net cash generated from investing activities was RMB396.9 million, which was primarily attributable to proceeds from maturity of wealth management products classified as fair value through profit or loss assets of RMB3,190.0 million and proceeds from maturity of term deposits of RMB440.9 million, partially offset by purchases of wealth management products classified as fair value through profit or loss assets of RMB3,062.7 million and purchases of term deposits of RMB195.7 million.

In 2017, our net cash used in investing activities was RMB621.1 million, which was primarily attributable to purchases of wealth management products classified as fair value through profit or loss assets of RMB3,715.1 million and purchases of term deposits of RMB229.8 million, partially offset by proceeds from maturity of wealth management products classified as fair value through profit or loss assets of RMB3,339.9 million.

Net Cash Generated from/(Used in) Financing Activities

In 2019, our net cash used in financing activities was RMB24.1 million, which was primarily attributable to principal elements of lease payments of RMB22.5 million.

In 2018, our net cash used in financing activities was RMB341.9 million, which was primarily attributable to dividends paid of RMB325.0 million.

In 2017, our net cash generated from financing activities was RMB37.8 million, which was primarily attributable to proceeds from issuance of convertible redeemable preferred shares of RMB260.0 million, partially offset by dividends paid of RMB200.0 million and principal elements of lease payments of RMB21.2 million.

INDEBTEDNESS

As of December 31, 2017, 2018, 2019 and May 31, 2020 (being the latest practicable date for the purpose of our indebtedness statement), we did not have any borrowings. As of May 31, 2020, we had unutilized banking facilities of RMB50.7 million.

As of December 31, 2017, 2018, 2019 and May 31, 2020, our current and non-current lease liabilities were RMB8.0 million, RMB32.8 million, RMB37.2 million and RMB153.3 million, respectively, primarily represented our outstanding payments mainly in respect of leases of certain properties and vehicles from third parties.

Save as aforesaid and apart from intra-group liabilities and normal accounts payable in the ordinary course of business, as of May 31, 2020, we did not have any material mortgages, charges, debentures, loan capital, debt securities, loans, bank overdrafts or other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptances (other than normal trade bills), acceptance credits or guarantees.

FINANCIAL INFORMATION

CONTINGENT LIABILITIES

We did not have any material contingent liabilities as of December 31, 2017, 2018, 2019 and May 31, 2020.

CAPITAL EXPENDITURES AND CAPITAL COMMITMENTS

Capital Expenditures

The following table sets out a breakdown of our capital expenditures for the periods indicated:

	Year ended December 31,		
	2017	2018	2019
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Purchase of intangible assets	32.0	12.6	20.1
Purchase of property, plant and equipment	<u>3.5</u>	<u>6.8</u>	<u>5.7</u>
Total	<u><u>35.5</u></u>	<u><u>19.4</u></u>	<u><u>25.8</u></u>

Our historical capital expenditures primarily included purchase of intangible assets and purchase of property, plant and equipment. We funded our capital expenditure requirements during the Track Record Period mainly from cash generated from operations. Our capital expenditures were RMB35.5 million, RMB19.4 million and RMB25.8 million in 2017, 2018 and 2019, respectively.

We plan to fund our planned capital expenditures using cash generated from operations and the net proceeds received from the Global Offering. See “Future Plans and Use of Proceeds.” We may reallocate the fund to be utilized on capital expenditure based on our ongoing business needs.

Capital Commitments

We had capital commitments under non-cancelable purchase agreements for intangible assets of nil, RMB13.7 million and RMB30.0 million as of December 31, 2017, 2018 and 2019, respectively.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of the Latest Practicable Date, we had not entered into any off-balance sheet arrangements.

MATERIAL RELATED PARTY TRANSACTIONS

For more details about our related party transactions during the Track Record Period, please see Note 31 of Appendix I to this prospectus.

Our Directors believe that our transactions with related parties during the Track Record Period were conducted on an arm’s length basis, and they did not distort our results of operations or make our historical results not reflective of our future performance.

FINANCIAL INFORMATION

FINANCIAL RISK DISCLOSURE

We are exposed to a variety of financial risks, including market risk, credit risk and liquidity risk.

Financial Risk Factors

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risks, which arise from foreign exchange rates (foreign exchange risk), market prices (price risk), and cash flow and fair value interest rate (cash flow and fair value interest rate risk).

Foreign Exchange Risk

We operate internationally through third-party publishers in markets outside of mainland China and we are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the U.S. dollars. Foreign exchange risk primarily arises from recognized assets and liabilities denominated in a currency other than the functional currency of our subsidiaries. We did not hedge against any fluctuation in foreign currency during the Track Record Period.

If foreign currencies had strengthened/weakened by 5% against RMB with all other variables held constant, the (loss)/profit for the year would have been approximately RMB23.6 million lower/higher, RMB11.4 million lower/higher and RMB16.1 million higher/lower for 2017, 2018 and 2019, respectively, as a result of net foreign exchange gains/losses on translation of net monetary assets denominated in currencies other than RMB.

Price Risk

We are exposed to price risk in respect of investments held by us that are classified on the combined balance sheet at fair value through profit or loss. We are not exposed to commodity price risk. To manage our price risk arising from the investments, we diversify our portfolio. Diversification of the portfolio is done in accordance with the limits set by us.

The sensitivity analysis is determined based on the exposure to price risk of financial assets at fair value through profit or loss at the end of the reporting period. If the fair values of the respective instruments held by us had been 1% higher/lower, the (loss)/profit for the 2017, 2018 and 2019 would have been approximately RMB6.6 million lower/higher, RMB5.3 million lower/higher, and RMB3.3 million higher/lower, respectively.

Cash Flow and Fair Value Interest Rate Risk

As we have no significant interest-bearing assets and liabilities other than cash and cash equivalents and term deposits, our income and cash flows are substantially independent of changes in market interest rates.

FINANCIAL INFORMATION

Credit Risk

Credit risk refers to the risk that one party to a financial instrument cannot fulfill its obligations and cause financial loss to the other party. We are exposed to credit risk in relation to our cash and cash equivalents, term deposits placed with banks, trade receivables and other receivables. The carrying amount of each class of the above financial assets represents our maximum exposure to credit risk in relation to financial assets.

Risk Management

Credit risk is managed on group basis. Our finance team is responsible for managing and analyzing the credit risk for each new client before standard payment and delivery terms and conditions are offered. We assess the credit quality of our customers and other debtors by taking into account various factors including their financial position, past experience and other factors.

To manage risks arising from cash and cash equivalents and term deposits, we transact with state-owned financial institutions in mainland China and reputable international financial institutions outside of mainland China. There has been no recent history of default in relation to these financial institutions. The expected credit loss is close to zero.

We are also exposed to credit risk in relation to debt investments that are measured at fair value through profit or loss. The maximum exposure at the end of the reporting period is the carrying amount of these investments.

Impairment of Financial Assets

Trade receivables

For trade receivables, we applied the IFRS 9 simplified approach to measure expected credit losses and we use a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and credit rating.

The expected loss rates are based on the historical payment profiles, historical loss rates and data published by external credit rating institution, adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. We have identified the GDP of the countries in which customers provides services to be the most relevant factor, and accordingly adjust the historical loss rates based on expected changes in GDP.

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with us, and indicators of severe financial difficulty.

Impairment losses on trade receivables are presented as “administrative expenses” within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

FINANCIAL INFORMATION

Other receivables

Impairment on other receivables is measured as either 12-month expected credit losses or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit loss. Management makes periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experience. In view of the history of cooperation with debtors, the sound collection history of receivables due from them and forward-looking estimates, the expected credit loss is minimal.

Liquidity Risk

Liquidity risk is the risk of not having access to sufficient funds or being unable to liquidate a position in a timely manner at a reasonable price to meet our obligations as they become due.

We aim to maintain sufficient cash and cash equivalents. Due to the dynamic nature of the underlying businesses, we maintain flexibility in funding by maintaining adequate cash and cash equivalents.

For analysis of our non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date, see Note 3.1(c) of Appendix I to this prospectus.

Fair Value Estimation

We measure fair values of financial instruments using the following fair value hierarchy that reflects the observability and significance of the inputs used in making the measurements:

- Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and equity securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the group is the current bid price. These instruments are included in level 1.
- Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximize the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.
- Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

During the Track Record Period, our financial assets at fair value through profit or loss categorized into level 3 of fair value measurement represented our investments in wealth management products issued by large and reputable commercial banks in the PRC. See “— Discussion of Certain Key Balance Sheet Items — Financial Assets at Fair Value through Profit or Loss.” The fair value of such financial assets was determined based on the discounted cash flow model using the expected return rate as discount rate. See Note 3.3 of Appendix I to this prospectus for more details.

FINANCIAL INFORMATION

With respect to the wealth management products investment categorized into level 3 of fair value measurement, we have (i) reviewed and agreed on the fair values measurement of these investments based on expected return of each wealth management products held by us; and (ii) implemented investment policies and internal control procedures to ensure the reasonableness of fair value measurement on the level 3 financial assets, see “— Business — Risk Management and Internal Control — Investment Risk Management.”

The Reporting Accountant’s opinion on our historical financial information for the Track Record Period is set out in Appendix I to this prospectus.

With respect to the wealth management products investment categorized into level 3 of fair value measurement, the Sole Sponsor has taken the necessary due diligence steps including but not limited to (i) reviewing the relevant notes in the Accountant’s report; and (ii) discussing with our Company and the Reporting Accountants the key basis, methodologies and assumptions for the valuation of financial assets at fair value through profit or loss. On the basis of the due diligence performed, the Sole Sponsor was of the view that appropriate steps have been taken by the Reporting Accountant and us in carrying out the level 3 fair value estimation for the wealth management products.

DIVIDEND

We are a holding company incorporated under the laws of the Cayman Islands. As a result, the payment and amount of any future dividend will depend on the availability of dividends received from our subsidiaries. PRC laws require a foreign-invested enterprise to make up for its accumulative losses out of its after-tax profits and allocate at least 10% of its remaining after-tax profits, if any, to fund its statutory reserves until the aggregate amount of its statutory reserves exceeds 50% of its registered capital.

In 2017, 2018 and 2019, Tianjin Loong, our primary operating entity, declared and paid dividends of RMB200.0 million, RMB325.0 million and nil, respectively, to Tianjin Loong’s then shareholders. In addition, a dividend distribution plan was approved on February 28, 2020, pursuant to which Tianjin Loong shall distribute a cash dividend of RMB350.0 million to all its then shareholders and we had paid the total amount of such dividend as of April 1, 2020. You should note that the historical dividend distributions are not indicative of our future dividend distribution policy and may not be used as a reference or basis to determine the level of dividends that may be declared or paid by us in the future. Currently we do not have a formal dividend policy or a fixed dividend distribution ratio. Any future declarations and payments of dividends will be at the absolute discretion of our Directors and will depend on our actual and expected results of operations, cash flow and financial position, general business conditions and business strategies, expected working capital requirements and future expansion plans, legal, regulatory and other contractual restrictions, and other factors which our Directors consider relevant. Any declaration and payment as well as the amount of dividend will be subject to our constitutional documents and the Cayman Companies Law. Our Shareholders in a general meeting may approve any declaration of dividends, which must not exceed the amount recommended by our Directors. No dividend shall be declared or payable except out of our profits and reserves lawfully available for distribution.

As advised by Harney Westwood & Riegels, the Cayman Islands Legal Adviser to the Company, a Cayman Islands exempted company may pay dividends out of profits, retained earnings or share premium, subject to a solvency test, and the provisions, if any, of the company’s memorandum and

FINANCIAL INFORMATION

articles of association. The directors of the Company must be comfortable that they have satisfied their fiduciary duties when the dividends are declared and paid, and are satisfied that the Company will continue to be able to pay its debts as they fall due after the payment of the dividend. Where dividends are paid out of share premium, there is a statutory test set out in Section 34(2) of the Cayman Companies Law which provides that the share premium account may be applied by the company to pay dividends to its members, “provided that 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 shall be able to pay its debts as they fall due in the ordinary course of business.” There is no provision under the Cayman Companies Law which expressly prohibits the Company to declare and pay dividends out of its share premium account where the Company is loss-making.

WORKING CAPITAL

Taking into account the financial resources available to us including our cash and cash equivalents on hand, the expected cash flows generated from our operations and the estimated net proceeds from the Global Offering, our Directors are of the view that we have sufficient working capital to meet our present requirements and for at least 12 months from the date of this prospectus.

DISTRIBUTABLE RESERVES

As of the Latest Practicable Date, our Company did not have any distributable reserves.

LISTING EXPENSE

Listing expenses represent professional fees, underwriting commissions and other fees incurred in connection with the Global Offering. We expect to incur listing expenses of approximately RMB127.0 million (or HK\$138.9 million) (based on the mid-point of the indicative Offer Price range and assuming the Over-allotment Option is not exercised) and such listing expenses are expected to account for approximately 7.44% of our net proceeds from the Global Offering. In 2019, we incurred listing expenses of RMB6.2 million, out of which RMB4.9 million was expensed and RMB1.3 million was recorded as prepayments and will be capitalized upon completion of the Global Offering. We expect to further incur approximately RMB120.8 million of listing expenses after December 31, 2019 upon the completion of the Global Offering, of which approximately RMB36.5 million is expected to be expensed and the remaining approximately RMB84.3 million is directly attributable to our issue of Offer Shares and will be capitalized. Our Directors do not expect such expenses to materially impact our results of operations in 2020.

UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative and pro forma statement of our adjusted net tangible assets which has been prepared in accordance with Rule 4.29 of the Listing Rules and on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering on our combined net tangible assets attributable to the owners of the Company as of December 31, 2019 as if Global Offering had taken place on that date.

FINANCIAL INFORMATION

The unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of our combined net tangible assets had the Global Offering been completed as of December 31, 2019 or at any future date.

	Audited combined net tangible assets of the Group attributable to the owners of the Company as at December 31, 2019 <i>(Note 1)</i>	Estimated impact to the net tangible assets attributable to the owners of the Company arising from conversion of preferred shares <i>(Note 2)</i>	Estimated net proceeds from the Global Offering <i>(Note 3)</i>	Unaudited pro forma adjusted net tangible assets of the Group attributable to the owners of the Company	Unaudited pro forma adjusted net tangible assets per Share <i>(Note 4)</i>	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB</i>	<i>HK\$</i>
Based on an Offer Price of						
HK\$9.80 per Share	<u>126,069</u>	<u>1,433,843</u>	<u>1,564,389</u>	<u>3,124,301</u>	<u>4.19</u>	<u>4.58</u>
Based on an Offer Price of						
HK\$11.60 per Share	<u>126,069</u>	<u>1,433,843</u>	<u>1,860,654</u>	<u>3,420,566</u>	<u>4.59</u>	<u>5.02</u>

Notes:

- (1) The audited combined net tangible assets of the Group attributable to the owners of the Company as at December 31, 2019 is extracted from the Accountant's Report set out in Appendix I to this prospectus, which is based on the audited combined net assets of the Group attributable to the owners of the Company as at December 31, 2019 of RMB170,102,000 with adjustments for the intangible assets as at December 31, 2019 of RMB44,033,000.
- (2) (a) Series A preferred shares and Series B preferred shares will be automatically converted into fully-paid ordinary shares upon the Listing. The preferred shares would be re-designated from liabilities to equity upon conversion. For the purpose of this unaudited pro forma financial information, the net tangible assets attributable to owners of the Company would increase by RMB1,259,648,000 as if Series A preferred shares and Series B preferred shares were converted into ordinary shares on December 31, 2019. The amount is calculated based on the corresponding carrying value of these preferred shares as of December 31, 2019.
- (b) The preferred shares of Tianjin Loong held by Beijing Loong will be converted into ordinary shares upon the Listing. The preferred shares will be re-designated from liabilities to equity. For the purpose of this unaudited pro forma financial information, the net tangible assets attributable to owners of the Company would increase by RMB174,195,000 as if the preferred shares of Tianjin Loong held by Beijing Loong were converted into ordinary shares on December 31, 2019. The amount is calculated based on the carrying value of these preferred shares as of December 31, 2019.
- (3) The estimated net proceeds from the Global Offering are based on the indicative Offer Price of HK\$9.80 and HK\$11.60 per share, respectively, after deduction of the underwriting fees and other related expenses (excluding listing expenses of approximately RMB4,907,000 which have been accounted for during the Track Record Period) payable by the Company and takes no account of any Shares which may fall to be issued upon the exercise of the Over-allotment Option, the options granted under the RSU Scheme or any Shares which may be granted and issued or repurchased by the Company pursuant to the general mandate to issue Shares and the general mandate to repurchase Shares.
- (4) The unaudited pro forma net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 746,000,002 Shares (including the completion of the conversion of the preferred shares into fully-paid ordinary shares as described in note (2) above but excluding share subscription after December 31, 2019 as

FINANCIAL INFORMATION

described in note (5) below and the unvested 29,400,000 shares under RSU scheme) were in issue assuming that the Global Offering and Capitalization Issue had been completed on December 31, 2019 but takes no account of any Shares which may fall to be issued upon the exercise of the Over-allotment Option and the options granted under the RSU Scheme.

- (5) Except as disclosed above, no other adjustment has been made to reflect any trading results or other transactions of the Group entered into subsequent to December 31, 2019. Among others, the following transactions have not been taken into account:
- (a) The dividend distribution plan approved on February 28, 2020, pursuant to which Tianjin Loong shall distribute a cash dividend of RMB350,000,000 to its then shareholders.
 - (b) The Offshore Share Subscription Agreement entered into by the Company and Perfect World Interactive and Image Frame on March 4, 2020, pursuant to which each Perfect World Interactive and Image Frame further subscribe 1,020,408 Series C-2 Preferred Shares at U.S. Dollars equivalent of RMB50,000,000.

The unaudited pro forma adjusted net tangible assets per Share would have been RMB3.79 (HK\$4.14) and RMB4.18 (HK\$4.57) per share based on the Offer Price of HK\$9.80 and HK\$11.60 respectively assuming 758,000,000 shares were in issue (excluding the unvested 29,400,000 shares under RSU scheme) and taking into account the effect of such dividend and Offshore Share Subscription Agreement as described above.

- (6) For the purpose of this unaudited pro forma adjusted net tangible assets, the amounts stated in Renminbi are converted into Hong Kong dollars at the rate of HK\$1.00 to RMB0.91496.

NO MATERIAL ADVERSE CHANGE

After performing sufficient due diligence work which our Directors consider appropriate and after due and careful consideration, the Directors confirm that, up to the date of this prospectus, there has been no material adverse change in our financial, operational or trading position or prospects since December 31, 2019, being the end date of the periods reported on in Appendix I to this prospectus, and there has been no event since December 31, 2019 that would materially affect the information as set out in Appendix I to this prospectus.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors confirm that, as of the Latest Practicable Date, there was no circumstance that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

CORNERSTONE INVESTORS

CORNERSTONE INVESTMENTS

As part of the International Offering, the Company has entered into cornerstone investment agreements with five cornerstone investors, details of which are set out below (together, the “**Cornerstone Investors**”).

The Cornerstone Investors have agreed to subscribe, at the Offer Price, for such number of Offer Shares (rounded down to the nearest whole board lot of 1,000 Shares) that may be subscribed for with an aggregate amount up to approximately US\$107.5 million (based on the high end of the indicative Offer Price range of HK\$11.60).

Assuming an Offer Price of HK\$9.80 (being the low end of the indicative Offer Price range set out in this prospectus), the Cornerstone Investors have agreed to subscribe for an aggregate of 75,143,000 Offer Shares, representing (a) approximately 9.5% of the total Shares in issue and approximately 40.1% of the total number of Offer Shares, in each case immediately following the completion of the Global Offering and assuming the Over-allotment Option is not exercised and (b) approximately 9.2% of the total number of Shares in issue and approximately 34.9% of the total number of Offer Shares, in each case immediately following the completion of the Global Offering and assuming the Over-allotment Option is exercised in full.

Assuming an Offer Price of HK\$10.70, (being the mid-point of the indicative Offer Price range set out in this prospectus), the Cornerstone Investors have agreed to subscribe for an aggregate of 73,348,000 Offer Shares, representing (a) approximately 9.3% of the total Shares in issue and approximately 39.1% of the total number of Offer Shares, in each case immediately following the completion of the Global Offering and assuming the Over-allotment Option is not exercised and (b) approximately 9.0% of the total number of Shares in issue and approximately 34.0% of the total number of Offer Shares, in each case immediately following the completion of the Global Offering and assuming the Over-allotment Option is exercised in full.

Assuming an Offer Price of HK\$11.60 (being the high end of the indicative Offer Price range set out in this prospectus), the Cornerstone Investors have agreed to subscribe for an aggregate of 71,831,000 Offer Shares, representing (a) approximately 9.1% of the total Shares in issue and approximately 38.3% of the total number of Offer Shares, in each case immediately following the completion of the Global Offering and assuming the Over-allotment Option is not exercised and (b) approximately 8.8% of the total number of Shares in issue and approximately 33.3% of the total number of Offer Shares, in each case immediately following the completion of the Global Offering and assuming the Over-allotment Option is exercised in full.

The investments made by the Cornerstone Investors pursuant to their respective cornerstone investment agreements will form part of the International Offering and all investment payment will be settled on or before the Listing. The Offer Shares to be delivered to each of the Cornerstone Investors pursuant to the relevant cornerstone investment agreements will rank *pari passu* with all other Shares then in issue and to be listed on the Hong Kong Stock Exchange and will count towards the public float of the Shares.

CORNERSTONE INVESTORS

The Offer Shares to be subscribed by the Cornerstone Investors will not be affected by reallocation of the Offer Shares between the International Offering and the Hong Kong Public Offering in the event of over-subscription under the Hong Kong Public Offering. Details of the actual number of Offer Shares to be allocated to the Cornerstone Investors will be disclosed in the allotment results announcement to be issued by us on or around July 14, 2020.

To the best knowledge of our Company, each Cornerstone Investor is an Independent Third Party, is not a connected person of the Company and is not an existing Shareholder or a close associate (as defined in the Listing Rules). Immediately following the completion of the Global Offering, none of the Cornerstone Investors will become a substantial Shareholder of our Company. In addition, to the best knowledge of our Company, each of the Cornerstone Investors is independent of each other and makes independent investment decisions.

The Company confirms that (i) there was no side agreement or arrangement between such Cornerstone Investors and the Company, the Directors, chief executive of the Company, Controlling Shareholders, substantial Shareholders or existing Shareholders or any of its subsidiaries or their respective close associates in relation to the cornerstone investment; (ii) none of the Cornerstone Investors are accustomed to take instructions from the Company, the Directors, chief executive of the Company, the Controlling Shareholders, substantial Shareholders or existing Shareholders or any of its subsidiaries or their respective close associates; and (iii) none of the subscription of the Offer Shares by the Cornerstone Investors is financed by the Company, the Directors, chief executive of the Company, Controlling Shareholders, substantial Shareholders or existing Shareholders or any of its subsidiaries or their respective close associates.

The Cornerstone Investors (a) will not have any representation on the Board immediately following the completion of the Global Offering; (b) will not subscribe for any Offer Shares pursuant to the Global Offering, other than pursuant to the relevant cornerstone investment agreements; and (c) do not have any preferential rights compared with other public Shareholders in their respective cornerstone investment agreements.

CORNERSTONE INVESTORS

DETAILS OF THE CORNERSTONE INVESTORS

Based on the Offer Price of HK\$9.80 (being the low end of the indicative Offer Price range)

Cornerstone Investor	Investment Amount ⁽¹⁾	Number of Offer Shares ⁽¹⁾ (rounded down to the nearest whole board lot of 1,000 Shares)	Percentage to the initial number of International Offer Shares		Approximate % of total number of Offer Shares		Approximate % of total Shares in issue immediately following the completion of the Global Offering	
			Assuming the Over-allotment Option is not exercised	Assuming the Over-allotment Option is exercised	Assuming the Over-allotment Option is not exercised	Assuming the Over-allotment Option is exercised in full	Assuming the Over-allotment Option is not exercised	Assuming the Over-allotment Option is exercised in full
					%	%	%	%
	US\$							
GIC Private Limited	68,018,663	53,793,000	31.9%	27.3%	28.7	25.0	6.8	6.6
Zilong Game Limited	9,999,286	7,908,000	4.7%	4.0%	4.2	3.7	1.0	1.0
SNK Corporation	7,998,923	6,326,000	3.8%	3.2%	3.4	2.9	0.8	0.8
Cosmic Blue Investments Limited	6,998,741	5,535,000	3.3%	2.8%	3.0	2.6	0.7	0.7
Soft-World International Corporation	1,999,099	1,581,000	0.9%	0.8%	0.8	0.7	0.2	0.2
Total	95,014,712	75,143,000	44.6%	38.2%	40.1	34.9	9.5	9.2

Based on the Offer Price of HK\$10.70 (being the mid-point of the indicative Offer Price range)

Cornerstone Investor	Investment Amount ⁽¹⁾	Number of Offer Shares ⁽¹⁾ (rounded down to the nearest whole board lot of 1,000 Shares)	Percentage to the initial number of International Offer Shares		Approximate % of total number of Offer Shares		Approximate % of total Shares in issue immediately following the completion of the Global Offering	
			Assuming the Over-allotment Option is not exercised	Assuming the Over-allotment Option is exercised	Assuming the Over-allotment Option is not exercised	Assuming the Over-allotment Option is exercised in full	Assuming the Over-allotment Option is not exercised	Assuming the Over-allotment Option is exercised in full
					%	%	%	%
	US\$							
GIC Private Limited	74,265,275	53,793,000	31.9%	27.3%	28.7%	25.0%	6.8%	6.6%
Zilong Game Limited	9,999,505	7,243,000	4.3%	3.7%	3.9%	3.4%	0.9%	0.9%
SNK Corporation	7,999,052	5,794,000	3.4%	2.9%	3.1%	2.7%	0.7%	0.7%
Cosmic Blue Investments Limited	6,999,516	5,070,000	3.0%	2.6%	2.7%	2.4%	0.6%	0.6%
Soft-World International Corporation	1,999,073	1,448,000	0.9%	0.7%	0.8%	0.7%	0.2%	0.2%
Total	101,262,420	73,348,000	43.5%	37.3%	39.1%	34.0%	9.3%	9.0%

CORNERSTONE INVESTORS

Based on the Offer Price of HK\$11.60 (being the high end of the indicative Offer Price range)

Cornerstone Investor	Investment Amounts ⁽¹⁾	Number of Offer Shares ⁽¹⁾ (rounded down to the nearest whole board lot of 1,000 Shares)	Percentage to the initial number of International Offer Shares		Approximate % of total number of Offer Shares		Approximate % of total Shares in issue immediately following the completion of the Global Offering	
			Assuming the Over-allotment Option is not exercised	Assuming the Over-allotment Option is exercised	Assuming the Over-allotment Option is not exercised	Assuming the Over-allotment Option is exercised in full	Assuming the Over-allotment Option is not exercised	Assuming the Over-allotment Option is exercised in full
	US\$				%	%	%	%
GIC Private Limited	80,511,887	53,793,000	31.9%	27.3%	28.7	25.0	6.8	6.6
Zilong Game Limited	9,999,441	6,681,000	4.0%	3.4%	3.6	3.1	0.8	0.8
SNK Corporation	7,999,852	5,345,000	3.2%	2.7%	2.9	2.5	0.7	0.7
Cosmic Blue Investments Limited	6,998,561	4,676,000	2.8%	2.4%	2.5	2.2	0.6	0.6
Soft-World International Corporation	1,999,589	1,336,000	0.8%	0.7%	0.7	0.6	0.2	0.2
Total	107,509,329	71,831,000	42.6%	36.5%	38.3	33.3	9.1	8.8

Note:

- For illustration purpose only, the investment amount and number of Offer Shares are calculated based on the exchange rate of US\$1.00 to HK\$7.7504. The actual investment amount of the Cornerstone Investors in Hong Kong dollars may vary due to the actual exchange rate on the business day immediately prior to the Price Determination Date.

The following information on the Cornerstone Investors was provided to the Company by the Cornerstone Investors.

Information about GIC Private Limited

GIC Private Limited (“GIC”), is a global investment management company established in 1981 to manage Singapore’s foreign reserves. GIC invests internationally in equities, fixed income, foreign exchange, commodities, money markets, alternative investments, real estate and private equity. With its current portfolio size of more than US\$100 billion, GIC is amongst the world’s largest fund management companies.

Information about Zilong Game Limited

Zilong Game Limited was incorporated in Hong Kong. It is principally engaged in the publishing and operation of mobile games. It is a wholly owned subsidiary of Zlongame. Zlongame is ultimately controlled by Mr. Wang Yi.

Founded in 2015 and headquartered in Beijing, Zlongame focuses on mobile game development and global publishing, with branch offices in Tokyo, Seoul and R&D centers in Beijing and Shanghai. Its products have been distributed in 30 countries and regions around the world, including mainland China, Hong Kong, Macao, Japan, South Korea, Southeast Asia, North America, Europe, and Australia.

CORNERSTONE INVESTORS

Information about SNK Corporation

SNK Corporation is a company incorporated in Japan with limited liability and is a public company listed on Korea Securities Dealers Automated Quotation (KOSDAQ) (stock code: 950180). It is principally engaged in the provision of video game and licensing, with numerous intellectual property rights, such as “The King of Fighters,” “Metal Slug” and “Samurai Shodown.” To the best of the Directors’ knowledge, information and belief after making reasonable enquiries, SNK Corporation does not require any approval from the KOSDAQ, nor its shareholders, to invest in the Company.

Information about Cosmic Blue Investments Limited

Cosmic Blue Investments Limited was incorporated under the laws of British Virgin Islands with limited liability and is wholly-owned by Kuaishou Technology (快手科技), a company incorporated under the laws of Cayman Islands with limited liability. Kuaishou is principally engaged in internet services.

Information about Soft-World International Corporation

Soft-World International Corporation is a company incorporated in Taiwan with limited liability and is a public company listed on Taiwan Stock Exchange (stock code: 5478). Soft-World International Corporation and its subsidiaries are principally engaged in the development and distribution of game software and the publication of game magazines. To the best of the Directors’ knowledge, information and belief after making reasonable enquiries, Soft-World International Corporation does not require any approval from the Taiwan Stock Exchange, nor its shareholders, to invest in the Company.

CONDITIONS PRECEDENT

The obligation of each Cornerstone Investor to subscribe, and the obligation of the Company to issue and deliver, the Offer Shares pursuant to the relevant cornerstone investment agreement is conditional upon the following:

- (a) the Hong Kong Underwriting Agreement and International Underwriting Agreement having been entered into and become effective and unconditional (in accordance with their respective original terms or as subsequently waived or varied by agreement of the parties thereto) by no later than the time and date as specified in these agreements, and neither of the Hong Kong Underwriting Agreement and International Underwriting Agreement having been terminated;
- (b) the Offer Price having been agreed upon between the Company and the Sole Global Coordinator (on behalf of the Underwriters);
- (c) the Listing Committee of the Hong Kong Stock Exchange having granted the approval for the listing of, and permission to deal in, the Shares (as well as other applicable waivers and approvals) and such approval, permission or waiver not having been revoked prior to the commencement of dealings in the Shares on the Hong Kong Stock Exchange;

CORNERSTONE INVESTORS

- (d) no laws having been enacted or promulgated by any governmental authority which prohibits the consummation of the transactions contemplated in the Global Offering or the subscription of the Offer Shares under the relevant cornerstone investment agreement and there being no orders or injunctions from a court of competent jurisdiction in effect which precludes or prohibits the consummation of such transactions; and
- (e) the respective representations, warranties, undertakings and confirmations of the relevant Cornerstone Investor under the relevant cornerstone investment agreement remaining accurate and true in all respects and not misleading and there being no material breach of the relevant cornerstone investment agreement on the part of the relevant Cornerstone Investor.

RESTRICTIONS ON DISPOSAL OF SHARES BY THE CORNERSTONE INVESTORS

Each Cornerstone Investor has agreed that without the prior written consent of the Company, the Sole Sponsor and the Sole Global Coordinator, it will not, whether directly or indirectly, at any time during the period of six months following the Listing Date (the “**Lock-up Period**”) dispose of, in any way, any of the Shares subscribed for by it pursuant to the relevant cornerstone investment agreement (the “**Relevant Shares**”) or any interest in any company or entity holding any Relevant Shares, including any securities convertible into or exchangeable or exercisable for or that represent the right to receive any of the forgoing securities, or agree or contract to, or publicly announce any intention to enter any such transaction described above.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

See “Business — Our Strategies” for a detailed description of our future plans.

USE OF PROCEEDS

Assuming an Offer Price of HK\$10.70 per Share (being the mid-point of the Offer Price Range stated in this prospectus), we estimate that we will receive net proceeds of approximately HK\$1,866.3 million from the Global Offering after deducting the underwriting commission and other estimated expenses paid and payable by us in connection with the Global Offering and assuming that the Over-allotment Option is not exercised. In line with our strategies, we intend to use our proceeds from the Global Offering for the purposes and in the amounts set forth below:

- Approximately 40% of the net proceeds, or HK\$746.5 million (equivalent to approximately RMB683.0 million), is expected to be used for enhancing our development capabilities and technology and expanding our game portfolio. We expect to launch eight mobile games domestically and globally over the period from 2020 to 2022, covering the genres of MMORPG, SLG and others. See “Business — Our Games — Our Game Pipeline.” We endeavor to continuously develop high-quality games by committing significant investments in talent resources, research and development, game technology and network infrastructure. In particular, we intend to allocate:
 - (i) approximately 15% of the net proceeds, or HK\$279.9 million, in the next two years in recruiting over 200 game development and graphic design talents, particularly those specialized in utilizing next-generation game technology, by providing them with competitive salaries and equity incentives; in terms of the game projects in the pipeline, 60% of the new recruits will be assigned to the game project groups of *Sango Heroes* (三國群英傳), Project C and Project D, all of which were at game proposal stage as of the Latest Practicable Date; approximately 30% of the new recruits will support the development of Project A and Project B and the others will work on market research and prospective game proposals; in terms of job functions, approximately 50%, 35% and 15% of the new recruits will be graphic designers, game development personnel and game engineers, respectively;
 - (ii) approximately 10% of the net proceeds, or HK\$186.6 million, in the next two years in enriching our game portfolio through increasing research and development expenses to expand the breadth of game genres and gameplay and to enhance game quality in terms of sound and visual effects;
 - (iii) approximately 10% of the net proceeds, or HK\$186.6 million, in the next three years in upgrading game technology to ensure the continuous rollout of AAA games typically through: (a) reinforcing our cooperative relationships with world-leading game engine developers to customize advanced game engines; and (b) developing our proprietary engine technology; and
 - (iv) approximately 5% of the net proceeds, or HK\$93.3 million, in the next two years in investing in technology and network infrastructure typically through: (a) purchasing additional servers, and (b) upgrading our data analytics system to analyze game player behavior, demographics and engagement level.

FUTURE PLANS AND USE OF PROCEEDS

- Approximately 20% of the net proceeds, or HK\$373.3 million (equivalent to approximately RMB341.5 million), is expected to be used for expanding our game publishing and operation business, particularly in markets outside of mainland China. We will strengthen our market position in Hong Kong, Macau, Taiwan, South Korea and Japan, further expand our business in Europe and North America and substantiate our presence in emerging markets such as India and Latin America. See “Business — Our Strategies — Expand in overseas markets and along the industry value chain, scaling up our global businesses.” To facilitate the implementation of our strategies, we intend to allocate:
 - (i) approximately 10% of the net proceeds, or HK\$186.6 million, in the next two years in bolstering our relationships with mainstream media and distribution channels across the world typically through (a) publishing larger number of our games through distribution channels in and outside of mainland China, including iOS App Store, Google Play, TapTap, Tencent MyApp and Huawei AppGallery, and devoting more funds into mobile user acquisition campaigns, (b) capitalizing on a diverse range of traffic acquisition channels to steer user traffic to our games and to further expand our player base; and (c) collaborating with digital marketing agencies such as Facebook, Google, YouTube and Instagram on market knowledge and insights to harness data and analytics and thereby serve targeted ads to specific audience based on their interests and preferences; see “Business — Our Strategies — Expand in overseas markets and along the industry value chain, scaling up our global businesses;”
 - (ii) approximately 5% of the net proceeds, or HK\$93.3 million, in the next two years in enhancing offline marketing initiatives typically through (a) engaging celebrities as our game ambassadors and organizing offline gatherings of game ambassadors and game players, and (b) attending industry expos and industry conferences such as ChinaJoy, China ACG Conference, Tencent Neo-culture Creativity Conference and Unreal Open Day in mainland China and the Game Developers Conference in the United States; and
 - (iii) approximately 5% of the net proceeds, or HK\$93.3 million, in the next three years in further building up our overseas publishing and operation team; see “Business — Our Strategies — Continue to Strengthen Our Development and Operational Capabilities;” out of the 5% of the net proceeds we allocate to the expansion of our overseas publishing and operation team, we expect to allocate 3% to 4.2% of the net proceeds for salary payment in the next three years.
- Approximately 20% of the net proceeds, or HK\$373.3 million (equivalent to approximately RMB341.5 million), is expected to be used for funding the strategic acquisition of and investment in upstream and downstream businesses along the industry value chain and investment in investment funds focusing on pan-entertainment or technology, media, and telecom. In particular, we intend to allocate:
 - (i) approximately 10% of the net proceeds, or HK\$186.6 million, in the next year in pursuing investment in investment funds focusing on pan-entertainment or technology, media, and telecom that will strengthen our collaborations with upstream and downstream companies; the fund manager of the target investment fund is expected to have extensive experience and a sound investment track record in investing in equities and/or bonds or other fixed income securities;

FUTURE PLANS AND USE OF PROCEEDS

- (ii) approximately 5% of the net proceeds, or HK\$93.3 million, in the next two years in investing and acquiring developers to diversify our game offerings and accelerate the growth potential of our business; we mainly evaluate the following factors when considering developers for acquisition: (a) the target company's track record in game development, taking into consideration the expertise of management teams and the representative projects that the core members of the target company have participated in; and (b) the capacity for innovation and ingenuity within the target company's graphic design team; and
- (iii) approximately 5% of the net proceeds, or HK\$93.3 million, in the next two years in investing and acquiring domestic and overseas game publishers and distribution channels to solidify our leading position in China's mobile game industry and extend our global reach; in considering the acquisition of game publishers and distribution channels, we mainly evaluate the following factors: (a) the scale of online network traffic and offline resources of the target company; and (b) the performance and industry experience of the target company in the designated markets in order to achieve synergies with our existing business.

For our investment policies, see "Business — Risk Management and Internal Control — Investment Risk Management." For our investment and acquisition strategy, see "Business — Our Strategies — Pursue strategic investment and acquisition opportunities." As of the Latest Practicable Date, we have no definitive commitments or agreements for investment or acquisition.

- Approximately 10% of the net proceeds, or HK\$186.6 million (equivalent to approximately RMB170.8 million) is expected to be used for expanding our IP reserve and enriching our content offerings. In particular, we intend to allocate:
 - (i) approximately 5% of the net proceeds, or HK\$93.3 million, in the next two years in collaborating with world-leading IP holders in creating the world's top-class mobile game adaptations to fortify our global brand; and
 - (ii) approximately 5% of the net proceeds, or HK\$93.3 million, in the next two years in sourcing and producing commercially valuable IP with sound market prospects across the formats of animation, literature, games and movies.
- Approximately 10% of the net proceeds, or HK\$186.6 million (equivalent to approximately RMB170.8 million), is expected to be used for working capital and general corporate uses.

FUTURE PLANS AND USE OF PROCEEDS

We estimate that we will receive from the Global Offering net proceeds, after deducting the underwriting fees and estimated expenses payable by us in connection with the Global Offering, in the amount as set forth in the following table:

	Based on the low-end of the proposed Offer Price range of HK\$9.80	Based on the mid-end of the proposed Offer Price range of HK\$10.70	Based on the high-end of the proposed Offer Price range of HK\$11.60
Assuming the Over-allotment Option is not exercised	Approximately HK\$1,704.4 million	Approximately HK\$1,866.3 million	Approximately HK\$2,028.2 million
Assuming the Over-allotment Option is exercised in full	Approximately HK\$1,968.9 million	Approximately HK\$2,155.0 million	Approximately HK\$2,341.2 million

To the extent that the net proceeds from the Global Offering (including the net proceeds from the exercise of the Over-allotment Option) are either more or less than expected, we will adjust our allocation of the net proceeds for the above purposes on a pro rata basis.

To the extent that the net proceeds of the Global Offering are not immediately used for the above purposes or if we are unable to put into effect any part of our plan as intended, and to the extent permitted by the relevant laws and regulations, we currently intend to deposit such net proceeds into interest-bearing bank accounts with licensed commercial banks or other authorized financial institutions so long as it is deemed to be in the best interests of the Company. In such event, we will comply with the appropriate disclosure requirements under the Listing Rules.

UNDERWRITING

HONG KONG UNDERWRITERS

China International Capital Corporation Hong Kong Securities Limited
Haitong International Securities Company Limited
CMB International Capital Limited
CNI Securities Group Limited
Bradbury Securities Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offering

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, our Company is offering initially 18,740,000 Hong Kong Offer Shares for subscription by the public in Hong Kong on and subject to the terms and conditions of this prospectus and the Application Forms. Subject to the Listing Committee granting listing of, and permission to deal in, our Shares in issue and to be offered as mentioned herein and to certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have agreed severally and not jointly to subscribe or procure subscribers for their respective applicable proportions of the Hong Kong Offer Shares now being offered which are not taken up under the Hong Kong Public Offering on and subject to 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.

Grounds for Termination

If any of the events set out below occur at any time prior to 8:00 a.m. on the Listing Date, the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) shall be entitled by written notice to the Company to terminate the Hong Kong Underwriting Agreement prior to 8:00 a.m. on the Listing Date with immediate effect:

- (a) there develops, occurs, exists or comes into force:
 - (i) any new law or regulation or any change or development involving a prospective change in existing law or regulation, or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority in or affecting Hong Kong, Macau, Taiwan, South Korea, the PRC, Singapore, the Cayman Islands, the United States, the United Kingdom, the European Union (or any member thereof) or Japan (each a “**Relevant Jurisdiction**”); or
 - (ii) any change or development involving a prospective change or development, or any event or series of events likely to result in or representing a change or development, or prospective change or development, in local, national, regional or international financial, political, military, industrial, economic, currency market, fiscal or regulatory or market conditions or any monetary or trading settlement system (including, without limitation, conditions in stock and bond markets, money and foreign exchange markets and inter-bank markets, a 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 change of the Hong Kong dollars or of the Renminbi against any foreign currencies) in or affecting any Relevant Jurisdiction; or

UNDERWRITING

- (iii) any event or series of events, whether in continuation, or circumstances in the nature of force majeure (including, without limitation, acts of government, labour disputes, strikes, lock-outs, fire, explosion, earthquake, flooding, tsunami, volcanic eruption, civil commotion, riots, rebellion, public disorder acts or declaration of war, acts of terrorism (whether or not responsibility has been claimed), acts of God, accident or interruption in transportation, destruction of power plant, outbreak, escalation, mutation or aggravation of diseases, epidemics or pandemic, including, but not limited to, SARS, swine or avian flu, H5N1, H1N1, H1N7, H7N9, Ebola virus, Middle East respiratory syndrome (MERS), COVID-19 and such related/mutated forms, economic sanction, any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of emergency or calamity or crisis in whatever form), other industry action in or directly or indirectly affecting any Relevant Jurisdiction; or
- (iv) any moratorium, suspension or restriction (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) in or on trading in securities of generally on the Hong Kong Stock Exchange, the New York Stock Exchange, the NASDAQ Global Market, the London Stock Exchange, the Tokyo Stock Exchange, the Singapore Stock Exchange, the Shanghai Stock Exchange or the Shenzhen Stock Exchange; or
- (v) any general moratorium on commercial banking activities in Hong Kong (imposed by the Financial Secretary or the Hong Kong Monetary Authority or other competent Governmental Authority), New York (imposed at Federal or New York State level or other competent Governmental Authority), London, Singapore, the PRC, the European Union (or any member thereof), Japan or any Relevant Jurisdiction or any disruption in commercial banking or foreign exchange trading or securities settlement or clearance services, procedures or matters in any Relevant Jurisdiction; or
- (vi) any (A) change or prospective change in exchange controls, currency exchange rates or foreign investment regulations (including, without limitation, a change of the Hong Kong dollars or RMB against any foreign currencies, a change in the system under which the value of the Hong Kong dollars is linked to that of the United States dollars or RMB is linked to any foreign currency or currencies), or (B) any change or prospective change in Taxation (as defined in the Hong Kong Underwriting Agreement) in any Relevant Jurisdiction adversely affecting an investment in the Shares; or
- (vii) the issue or requirement to issue by the Company of a supplemental or amendment to this prospectus, Application Forms, preliminary offering circular or offering circular or other documents in connection with the offer and sale of the Shares pursuant to the Companies Ordinance or the Listing Rules or upon any requirement or request of the Stock Exchange or the SFC; or
- (viii) any change or development involving a prospective change which has the effect of materialisation of any of the risks set out in the section headed “Risk Factors” in this prospectus; or
- (ix) any litigation or claim being threatened or instigated against any member of our Group or its directors or supervisors (if applicable); or
- (x) any contravention by any member of our Group or its directors or supervisors (if applicable) of the Companies Ordinance, the PRC Company Law or the Listing Rules; or

UNDERWRITING

- (xi) any of the chairman, president, Director, chief executive officer or chief financial officer of the Company vacating his/her office; or
- (xii) a Governmental Authority (as defined in the Hong Kong Underwriting Agreement) or a regulatory body or organisation in any Relevant Jurisdiction commencing any investigation or other action or proceedings, or announcing an intention to investigate or take other action or proceedings, against any member of our Group or its directors or supervisors (if applicable); or
- (xiii) any litigation or claim being threatened or instigated against, or a Governmental Authority or a regulatory body or organisation in any Relevant Jurisdiction commencing any investigation or action or other proceedings, or announcing an intention to investigate or take other action or proceedings against any member of our Group or any of the chairman, president or our Directors, or any of them being charged with an indictable offence or prohibited by operation of Laws (as defined in the Hong Kong Underwriting Agreement) or otherwise disqualified from taking part in the management of a company or the commencement by any governmental, political, regulatory body of any action against any Director or any announcement by any governmental, political, regulatory body that it intends to take any such action; or any material adverse change or prospective material adverse change in the earnings, results of operations, business, business prospects, financial or trading position, conditions (financial or otherwise) or prospects of any member of our Group (including any litigation or claim of any third party being threatened or instigated against any member of our Group); or
- (xiv) any order or petition for, or any demand by creditors for repayment of indebtedness or a petition being presented for, the winding-up or liquidation of any member of our Group, or any member of our Group making any composition or arrangement with its creditors or entering into a scheme of arrangement or any resolution being passed for the winding-up of any member of our Group or a provisional liquidator, receiver or manager being appointed 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
- (xv) a prohibition on the Company for whatever reason from allotting, issuing or selling the Shares (including the Shares issued pursuant to the exercise of the Over-allotment Option) pursuant to the terms of the Global Offering; or
- (xvi) the imposition of sanctions, in whatever form, directly or indirectly, by, or for, any Relevant Jurisdiction on the Company or any member of our Group; or

which, in any such case individually or in the aggregate, in the sole and absolute opinion of the Sole Sponsor and the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters): (A) is or will be or may be materially adverse to, or materially and prejudicially affects, the assets, liabilities, business, general affairs, management, shareholder's equity, profit, losses, results of operations, position or condition (financial or otherwise), or prospects of the Company or the Group as a whole or to any present or prospective shareholder of the Company in its capacity as such; or (B) has or will have or may have a material adverse effect on the success of the Global Offering or the level of Offer Shares being applied for or accepted or subscribed for or purchased or the distribution of Offer Shares and/or has made or is likely to make or may make

UNDERWRITING

it impracticable or inadvisable or incapable for any material part of the Hong Kong Underwriting Agreement, the Hong Kong Public Offering or the Global Offering to be performed or implemented as envisaged; or (C) makes or will make it or may make it impracticable or inadvisable or incapable to proceed with the Hong Kong Public Offering and/or the Global Offering or the delivery of the Offer Shares on the terms and in the manner contemplated by the prospectus, the Application Forms, the formal notice, the preliminary offering circular or the offering circular; or (D) would have or may have the effect of making a 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; or

- (b) there has come to the notice of the Sole Sponsor and the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters):
- (i) that any statement contained in the offering documents, the Operative Documents (as defined in the Hong Kong Underwriting Agreement), the preliminary offering circular and/or any notices, announcements, advertisements, communications issued or used by or on behalf of the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) was or has become untrue, incomplete, incorrect in any material aspects or misleading or any forecasts, estimate, expressions of opinion, intention or expectation expressed in the Hong Kong Public Offering documents and/or any notices, announcements, advertisements, communications so issued or used are not fair and honest and made on reasonable grounds or, where appropriate, based on reasonable assumptions, when taken as a whole; or
 - (ii) any contravention by any member of our Group or any Director of any Law with Material Adverse Effect (as defined in the Hong Kong Underwriting Agreement); or
 - (iii) non-compliance of this prospectus (or any other documents used in connection with the contemplated subscription and sale of the Offer Shares) or any aspect of the Global Offering with the Listing Rules or any other applicable Law; or
 - (iv) any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, not having been disclosed in the offering documents, constitutes an omission therefrom; or
 - (v) either (A) there has been a breach of any of the representations, warranties, undertakings or provisions of either the Hong Kong Underwriting Agreement or the International Underwriting Agreement by the Company or the Controlling Shareholders or (B) any of the representations, warranties and undertakings given by the Company or the Controlling Shareholders in the Hong Kong Underwriting Agreement or the International Underwriting Agreement, as applicable, is (or would when repeated be) untrue, incorrect, incomplete or misleading; or
 - (vi) any event, act or omission which gives or is likely to give rise to any liability of the Company or the Controlling Shareholders pursuant to the indemnities given by the Company under the Hong Kong Underwriting Agreement; or

UNDERWRITING

- (vii) any event, act or omission which gives or is likely to give rise to any liability of the Company or each of the Controlling Shareholders pursuant to the indemnities given by the Company or each of the Controlling Shareholders under the Hong Kong Underwriting Agreement; or
- (viii) any litigation or dispute or potential litigation or dispute, which would materially affect the operation, financial condition, reputation or composition of the Board of the Group; or
- (ix) any material breach of any of the obligations of the Company or the Controlling Shareholders under the Hong Kong Underwriting Agreement or the International Underwriting Agreement; or
- (x) any breach of, or any event rendering any of the Company or the Controlling Shareholders (as defined in the Hong Kong Underwriting Agreement) untrue or incorrect or misleading in any material respect; or
- (xi) a significant portion of the orders in the book-building process at the time of 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 cancelled; or
- (xii) any expert, whose consent is required for the issue of this prospectus with the inclusion of its reports, letters or opinions and references to its name included in the form and context in which it respectively appears, has withdrawn its respective consent (other than the Sole Sponsor) prior to the issue of this prospectus; or
- (xiii) any Material Adverse Effect; or
- (xiv) any adverse change or prospective adverse change or development involving a prospective adverse change in the assets, business, general affairs, management, shareholder's equity, profits, losses, properties, results of operations, in the position or condition (financial or otherwise) or prospects of the Company, its subsidiaries or Consolidated Affiliated Entities, as a whole; or
- (xv) admission is refused or not granted, other than subject to customary conditions, on or before the Listing Date, or if granted, the admission is subsequently withdrawn, cancelled, qualified (other than by customary conditions), revoked or withheld; or
- (xvi) the Company has withdrawn the Offering Documents (and/or any other documents issued or used in connection with the Global Offering) or the Global Offering.

Undertakings to the Hong Kong Stock Exchange pursuant to the Listing Rules

Undertakings by the Company

In accordance with Rule 10.08 of the Listing Rules, we have agreed and undertaken to the Hong Kong Stock Exchange that (except pursuant to the Global Offering and the Over-allotment Option) within six months from the Listing Date, no further Shares or securities convertible into equity securities of the

UNDERWRITING

Company (whether or not of a class already listed) shall be issued or form the subject of any agreement to such an issue (whether or not such issue of Shares or securities will be completed within six months from the Listing Date), except in certain circumstances prescribed in Rule 10.08 of the Listing Rules.

Undertakings by the Controlling Shareholders

In accordance with Rule 10.07(1) of the Listing Rules, each of our Controlling Shareholders has irrevocably and unconditionally undertaken to the Hong Kong Stock Exchange and to our Company that, except pursuant to the Global Offering and the Over-allotment Option, it/he shall not and shall procure that the relevant registered holder(s) controlled by it/him shall not, without the prior written consent of the Hong Kong Stock Exchange or unless in compliance with the applicable requirements of the Listing Rules:

- (i) in the period commencing on the date by reference (the “**Reference Date**”) to which disclosure of its/his shareholding is made in this prospectus and ending on the date (the “**End Date**”) which is six months from the Listing Date, dispose of, or enter into any agreement to dispose of, or otherwise create any options, rights, interests or encumbrances in respect of, any of those securities of our Company in respect of which it/he is shown by this prospectus to be the beneficial owner (the “**Relevant Securities**”); and
- (ii) during the period of six months commencing on the End Date, dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests, or encumbrances in respect of the Relevant Securities to such an extent that immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, it/he would cease to be a controlling shareholder (as defined in the Listing Rules) of our Company.

Pursuant to Note (2) to Rule 10.07(2) of the Listing Rules, Rule 10.07 does not prevent a Controlling Shareholder from using the Shares beneficially owned by it/him/her as security (including a charge or pledge) 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.

In accordance with Note (3) to Rule 10.07(2) of the Listing Rules, our Controlling Shareholders have further undertaken to the Hong Kong Stock Exchange and to our Company that within the period commencing on the Reference Date and ending on the date which is 12 months from the Listing Date:

- (i) when it/he or the relevant registered holder(s) controlled by it/him pledge or charge any Shares beneficially owned by it/him in favor of an authorized institution (as defined in the Banking Ordinance, Chapter 155 of the Laws of Hong Kong), pursuant to Note 2 to Rule 10.07(2) of the Listing Rules for a bona fide commercial loan, immediately inform our Company and the Hong Kong Stock Exchange in writing of such pledge or charge together with the number of Shares so pledged or charged; and
- (ii) when it/he receive indications, either verbal or written, from the pledgee or chargee of any Shares that any of the pledged or charged Shares will be disposed of, immediately inform our Company in writing of such indications.

UNDERWRITING

We will inform the Hong Kong Stock Exchange as soon as we have been informed of the matters referred to in paragraphs (i) and (ii) above (if any) by any of our Controlling Shareholders and make a public disclosure in relation to such information by way of an announcement in accordance with the Listing Rules.

Undertakings pursuant to the Hong Kong Underwriting Agreement

Undertakings by the Company

We have also undertaken to each of the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners and the Hong Kong Underwriters that except pursuant to the Global Offering (including pursuant to the Over-allotment Option), at any time after the date of the Hong Kong Underwriting Agreement up to and including the date falling six months after the Listing Date (the “**First Six-Month Period**”), it will not, without the prior written consent of the Sole Sponsor and the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules:

- (i) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, assign, mortgage, charge, pledge, assign, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or 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, or repurchase, any legal or beneficial interest in the share capital or any other equity securities of our Company, 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 share capital or other equity securities of our Company, as applicable), or deposit any share capital or other equity securities of our Company, as applicable, with a depositary in connection with the issue of depositary receipts; or
- (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership (legal or beneficial) of the Shares or any other equity securities of the Company, 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
- (iii) enter into any transaction with the same economic effect as any transaction described in (i) or (ii) above; or
- (iv) offer to or agree to do any of the foregoing or announce any intention to do so,

in each case, whether any of the foregoing transactions is to be settled by delivery of share capital or such other equity securities, in cash or otherwise (whether or not the issue of such share capital or other equity securities will be completed within the First Six-Month Period). We further agree that, in the event our Company is allowed to enter into any of the transactions described in (i), (ii) or (iii) above or offers to or agrees to or announces any intention to effect any such transaction during the period of six months commencing on the date on which the First Six Month Period expires (the “**Second Six Month**”

UNDERWRITING

Period”), we will take all reasonable steps to ensure that such an issue or disposal will not, and no other act of our Company will, create a disorderly or false market for any Shares or other securities of our Company.

Undertakings by the Controlling Shareholders

Each of the Controlling Shareholders agrees and undertakes to our Company and each of the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners and the Hong Kong Underwriters that except pursuant to the Global Offering (including pursuant to the Over-allotment Option), at any time after the date of the Hong Kong Underwriting Agreement up to and including the date falling the First Six Month Period, it will not, and will procure that none of its Associates (as defined in the Hong Kong Underwriting Agreement) will, without the prior written consent of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters):

- (a) offer, accept subscription for, pledge, charge, allot, issue, sell, lend, mortgage, assign, contract to allot, issue or sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, or repurchase any of its share capital or other securities of our Company or any interest therein (including but not limited to any securities convertible into or exercisable or exchangeable for or that represent the right to receive any such share capital or securities or any interest therein); 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 (legal or beneficial) of such share capital or securities or any interest therein, 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
- (c) enter into any transaction with the same economic effect as any transaction specified in (a) or (b) above; or
- (d) offer to or agree to do any of the foregoing or announce any intention to do so,

in each case, whether any of the foregoing transactions is to be settled by delivery of share capital or such other securities, in cash or otherwise (whether or not the issue of such share capital or other equity securities will be completed within the First Six Month Period); and

- (i) during the Second Six-Month Period, each of our Controlling Shareholders will not enter into any transaction described in paragraphs (a), (b) and (c) above or agree or contract to or publicly announce any intention to enter into any such transaction if, immediately following such transaction, any of our Controlling Shareholders would cease to be a Controlling Shareholder (as defined in the Listing Rules) of the Company; and
- (ii) until the expiry of the Second Six-Month Period, in the event that it/he enters into any such transactions specified in paragraphs (a), (b) or (c) above or agrees or contracts to, or publicly announces an intention to enter into any such transactions, each of our Controlling Shareholders will take all reasonable steps to ensure that it/he will not create a disorderly or false market in the securities of our Company, provided that nothing above shall prevent our Controlling Shareholders from (i) purchasing additional Shares or other securities of our Company and disposing of such

UNDERWRITING

additional Shares or securities of our Company, (ii) using the Shares or other securities of our Company or any interest therein beneficially owned by them as security (including a charge or a pledge) in favour of an authorized institution (as defined in the Banking Ordinance, Chapter 155 of the Laws of Hong Kong) for a bona fide commercial loan.

Indemnity

Each of the Company and the Controlling Shareholders has jointly and severally undertaken, from time to time, to indemnify, among others, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters for certain losses which they may suffer, including losses arising from the performance of their obligations under the Hong Kong Underwriting Agreement and any breach by us or the Controlling Shareholders of the Hong Kong Underwriting Agreement, as the case may be.

The International Offering

In connection with the International Offering, it is expected that our Company and our Controlling Shareholders will enter into the International Underwriting Agreement with the International Underwriters. Under the International Underwriting Agreement, the International Underwriters will, subject to certain conditions set out therein, severally and not jointly, agree to procure subscribers or purchasers for the International Offer Shares, failing which they agree to subscribe for or purchase their respective proportions of the International Offer Shares which are not taken up under the International Offering.

Our Company is expected to grant to the International Underwriters the Over-allotment Option, exercisable by the Sole Global Coordinator on behalf of the International Underwriters at any time from the date of the International Underwriting Agreement until 30 days after the last day for the lodging of applications under the Hong Kong Public Offering, to require our Company to issue and allot up to an aggregate of 28,110,000 additional Offer Shares representing approximately 15% of the initial Offer Shares, at the Offer Price to cover, among other things, over-allocations (if any) in the International Offering.

It is expected that the International Underwriting Agreement may be terminated on similar grounds as the Hong Kong Underwriting Agreement. Potential investors should note that if the International Underwriting Agreement is not entered into, or is terminated, the Global Offering will not proceed.

Total Commission and Expenses

The Underwriters will receive an underwriting commission of 3% of the aggregate Offer Price of all the Offer Shares for both the Hong Kong Public Offering and the International Offering (including any Offer Shares to be issued pursuant to the exercise of the Over-allotment Option), out of which they will pay any sub-underwriting commissions and other fees. For unsubscribed Hong Kong Offer Shares reallocated to the International Offering, our Company will pay an underwriting commission at the rate applicable to the International Offering and such commission will be paid to the relevant International Underwriters and not the Hong Kong Underwriters. Our Company may, at our sole and absolute discretion, pay to the Underwriters an incentive fee up to 1% of the Offer Price for each Offer Share for both the Hong Kong Public Offering and the International Offering (including any Offer Shares to be issued pursuant to the exercise of the Over-allotment Option).

UNDERWRITING

Assuming the Over-allotment Option is not exercised at all and based on an Offer Price of HK\$10.70 per Share (being the mid-point of the indicative Offer Price range of HK\$9.80 to HK\$11.60 per Share), the aggregate commissions and fees, together with listing fees, SFC transaction levy, Hong Kong Stock Exchange trading fee, legal and other professional fees and printing and other expenses, payable by our Company relating to the Global Offering are estimated to be approximately HK\$138.90 million in total.

Each of the Company and the Controlling Shareholders has agreed to indemnify the Hong Kong Underwriters and International Underwriters for certain losses which they may suffer, including liabilities under the U.S. Securities Act, losses incurred arising from their performance of their obligations under the Underwriting Agreements and any breach by our Company of the Underwriting Agreements.

Activities by Syndicate Members

We describe below a variety of activities that underwriters of the Hong Kong Public Offering and, together referred to as “Syndicate Members”, may each individually undertake, and which do not form part of the underwriting or the stabilizing process. When engaging in any of these activities, it should be noted that the Syndicate Members are subject to restrictions, including the following:

The Syndicate Members (except for China International Capital Corporation Hong Kong Securities Limited, as the Stabilizing Manager, its affiliates or any person acting for it) must not, in connection with the distribution of the Offer Shares, effect any transactions (including issuing or entering into any option or other derivative transactions relating to the Offer Shares), whether in the open market or otherwise, with a view to stabilizing or maintaining the market price of any of the Offer Shares at levels other than those which might otherwise prevail in the open market; and all of them must comply with all applicable laws, including the market misconduct provisions of the SFO, the provisions prohibiting insider dealing, false trading, price rigging and stock market manipulation.

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 the Shares as their or part of their underlying assets. Those activities may require hedging activity by those entities involving, directly or indirectly, buying and selling 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 or part of their underlying assets, whether on the Hong Kong Stock Exchange or on any other stock exchange, the rules of the relevant 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 of these activities may occur both during and after the end of the stabilizing period described in the sections headed “Structure and Conditions of the Global Offering — The International Offering — Over-allotment Option” and “Structure and Conditions of the Global Offering — The International Offering — Stabilization”. These activities may affect the market price or value of the Shares, the liquidity or trading volume in the Shares and the volatility of their share price, and the extent to which this occurs from day to day cannot be estimated.

Hong Kong Underwriters’ Interests in our Company

Save as disclosed in this prospectus and save for its obligations under the Hong Kong Underwriting Agreement, none of the Hong Kong Underwriters has any shareholding interests in our Company or the right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in our Company.

Following the completion of the Capitalization Issue and the Global Offering, the Underwriters and their affiliated companies may hold a certain portion of the Shares as a result of fulfilling their obligations under the Underwriting Agreements.

Other Services to our Company

Certain of the Sole Global Coordinator, the Hong Kong Underwriters or their respective affiliates have, from time to time, provided and expect to provide in the future investment banking and other services to our Company and our respective affiliates, for which such Sole Global Coordinator, Hong Kong Underwriters or their respective affiliates have received or will receive customary fees and commissions.

Other Services Provided by the Sole Global Coordinator, the Joint Bookrunners and the Underwriters

The Sole Global Coordinator, the Joint Bookrunners and the Underwriters may in their ordinary course of business provide financing to investors subscribing for the Offer Shares offered by this Prospectus. Such Sole Global Coordinator, Joint Bookrunners and Underwriters may enter into hedges and/or dispose of such Offer Shares in relation to the financing which may have a negative impact on the trading price of our Shares.

Over-Allotment and Stabilization

Details of the arrangements relating to the stabilization and Over-allotment Option are set forth in the sections headed “Structure and Conditions of the Global Offering — The International Offering — Stabilization”, and “Structure and Conditions of the Global Offering — The International Offering — Over-allotment Option”.

Sponsor’s Independence

The Sole Sponsor satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. The Global Offering comprises:

- (i) the Hong Kong Public Offering of initially 18,740,000 Offer Shares in Hong Kong as described below in the paragraph headed “— The Hong Kong Public Offering” below; and
- (ii) the International Offering of initially 168,660,000 Offer Shares, consisting of the offering of our Shares (i) in the United States to QIBs in reliance on Rule 144A or another available exemption; and (ii) outside the United States in reliance on Regulation S under the U.S. Securities Act. At any time from the date of the International Underwriting Agreement until 30 days after the last day for the lodging of applications under the Hong Kong Public Offering, the Sole Global Coordinator, as representative of the International Underwriters, have an option to require us to issue and allot up to 28,110,000 additional Offer Shares, representing 15% of the initial number of Offer Shares to be offered in the Global Offering, at the Offer Price to, among other things, cover over-allocations in the International Offering, if any. If the Over-allotment Option is exercised in full, the additional Offer Shares will represent approximately 3.45% of the Company’s enlarged share capital immediately following the completion of the Capitalization Issue and the Global Offering and the exercise of the Over-allotment Option. In the event that the Over-allotment Option is exercised, a press announcement will be made.

Investors may apply for Offer Shares under the Hong Kong Public Offering or apply for or indicate an interest for Offer Shares under the International Offering, but may not do both.

The Offer Shares will represent approximately 23.80% of the enlarged issued share capital of the Company immediately after completion of the Capitalization Issue and the Global Offering without taking into account the exercise of the Over-allotment Option. If the Over-allotment Option is exercised in full, the Offer Shares will represent approximately 26.43% of the enlarged issued share capital of the Company immediately after completion of the Capitalization Issue and the Global Offering and the exercise of the Over-allotment Option as set out in the paragraph headed “— The International Offering — Over-allotment Option” below.

The number of Offer Shares to be offered under the Hong Kong Public Offering and the International Offering may be subject to reallocation as described in the paragraph headed “— The Hong Kong Public Offering — Reallocation and clawback” below.

THE HONG KONG PUBLIC OFFERING

Number of Offer Shares initially offered

Our Company is initially offering 18,740,000 Offer Shares for subscription by the public in Hong Kong at the Offer Price, representing 10% of the total number of Offer Shares initially available under the Global Offering.

The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors. The Hong Kong Offer Shares will represent approximately 2.38% of the Company’s registered share capital immediately after completion of the Capitalization

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

Issue and the Global Offering, assuming that the Over-allotment Option is not exercised. 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.

Completion of the Hong Kong Public Offering is subject to the conditions as set out in the paragraph headed “— The International Offering — Conditions of the Hong Kong Public Offering” below.

Allocation

Allocation of Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants. Such allocation could, where appropriate, consist of balloting, which 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 number of Offer Shares initially available under the Hong Kong Public Offering (after taking account of any reallocation referred to below) is to be divided into two pools for allocation purposes: 9,370,000 Offer Shares for pool A and 9,370,000 Offer Shares for pool B. The Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for Offer Shares with an aggregate price of HK\$5 million (excluding the brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee payable) or less. The Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for Offer Shares with an aggregate price of more than HK\$5 million (excluding the brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee payable) and up to the total value in pool B. Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If Offer Shares in one (but not both) of the pools are undersubscribed, the surplus Offer Shares will be transferred to the other pool to satisfy demand in this other pool and be allocated accordingly. For the purpose of this paragraph only, the “price” for Offer Shares means the price payable on application therefore (without regard to the Offer Price as finally determined). Applicants can only receive an allocation of Offer Shares from either pool A or pool B but not from both pools. Multiple or suspected multiple applications and any application for more than 9,370,000 Offer Shares are liable to be rejected.

Reallocation and clawback

The allocation of Shares between the Hong Kong Public Offering and the International Offering is subject to adjustment. Paragraph 4.2 of Practice Note 18 of the Listing Rules requires a clawback mechanism to be put in place, which would have the effect of increasing the number of Hong Kong Offer Shares to certain percentages of the total number of Offer Shares to be offered in the Global Offering if certain prescribed total demand levels in the Hong Kong Public Offering are to the effect as further described below (the “**Mandatory Reallocation**”):

- (i) 18,740,000 Offer Shares are initially available in the Hong Kong Public Offering, representing 10% of the Offer Shares initially available under the Global Offering;

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

in the event that the International Offer Shares are fully subscribed or oversubscribed,

- (ii) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 15 times or more but less than 50 times the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering, so that the total number of Offer Shares available under the Hong Kong Public Offering will be 56,220,000 Offer Shares, representing 30% 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 50 times or more but less than 100 times the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering, so that the total number of Offer Shares available under the Hong Kong Public Offering will be 74,960,000 Offer Shares, representing 40% of the Offer Shares initially available under the Global Offering; and
- (iv) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 100 times or more than the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering, so that the total number of Offer Shares available under the Hong Kong Public Offering will be 93,700,000 Offer Shares, representing 50% of the Offer Shares initially available under the Global Offering.

The Offer Shares to be offered in the Hong Kong Public Offering and the International Offering may, in certain circumstances, be reallocated as between these offerings at the discretion of the Sole Sponsor and the Sole Global Coordinator (for itself and on behalf of the Underwriters). Subject to the foregoing paragraph, the Sole Sponsor and the Sole Global Coordinator may in their discretion reallocate Offer Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering. In addition, if the Hong Kong Public Offering is not fully subscribed for, the Sole Sponsor and the Sole Global Coordinator have the authority to reallocate all or any unsubscribed Hong Kong Offer Shares to the International Offering, in such proportions as the Sole Sponsor and the Sole Global Coordinator deem appropriate.

In addition to any Mandatory Reallocation which may be required, the Sole Sponsor and the Sole Global Coordinator (for itself and on behalf of the Underwriters) may, at their discretion, reallocate Offer Shares initially allocated for the International Offering to the Hong Kong Public Offering to satisfy valid applications in Pool A and Pool B under the Hong Kong Public Offering. In the event that (i) the International Offer Shares are undersubscribed and the Hong Kong Offer Shares are fully subscribed or oversubscribed irrespective of the number of times; or (ii) the International Offer Shares are fully subscribed or oversubscribed and the Hong Kong Offer Shares are fully subscribed or oversubscribed as to less than 15 times of the number of Hong Kong Offer Shares initially available under the Hong Kong Public Offering provided that the Offer Price would be set at HK\$9.80 (low end of the indicative Offer Price range set out in this Prospectus), up to 18,740,000 Offer Shares may be reallocated to the Hong Kong Public Offering from the International Offering, so that the total number of the Offer Shares available under the Hong Kong Public Offer will be increased to 37,480,000 Offer Shares, representing 20% of the number of the Offer Shares initially available under the Global Offering (before any exercise of the Over-allotment Option).

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

Applications

Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the application submitted by him that he and any person(s) for whose benefit he is making the application 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 Offering, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or it has been or will be placed or allocated Offer Shares under the International Offering.

The listing of the Offer Shares on the Hong Kong Stock Exchange is sponsored by the Sole Sponsor. Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum price of HK\$11.60 per Share in addition to any brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee payable on each Offer Share. If the Offer Price, as finally determined in the manner described in the paragraph headed “— The International Offering — Pricing of the Global Offering” below, is less than the maximum price of HK\$11.60 per Share, appropriate refund payments (including the brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set out below in the section headed “How to Apply for Hong Kong Offer Shares” in this Prospectus.

References in this prospectus to applications, Application Forms, application monies or the procedure for application relate solely to the Hong Kong Public Offering.

THE INTERNATIONAL OFFERING

Number of Offer Shares offered

Subject to reallocation as described above and the Over-allotment Option, the International Offering will consist of an aggregate of 168,660,000 Offer Shares to be initially offered by us.

Allocation

The International Offering will include selective marketing of Offer Shares to institutional and professional investors and other investors anticipated to have a sizeable demand for such Offer Shares. 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. Allocation of Offer Shares pursuant to the International Offering will be effected in accordance with the “book-building” process described in the paragraph headed “— The International Offering — Pricing of the Global Offering” below and based on a number of factors, including the level and timing of demand, the total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Offer Shares, and/or hold or sell its Offer Shares, after the listing of the Offer Shares on the Stock Exchange. Such allocation is intended to result in a distribution of the Offer 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.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

The Sole Global Coordinator (for itself and on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the International Offering, and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Sole Global Coordinator so as to allow them to identify the relevant application under the Hong Kong Public Offering and to ensure that it is excluded from any application of Offer Shares under the Hong Kong Public Offering.

Over-allotment Option

In connection with the Global Offering, we are expected to grant an Over-allotment Option to the International Underwriters exercisable by the Sole Global Coordinator on behalf of the International Underwriters.

Pursuant to the Over-allotment Option, the Sole Global Coordinator have the right, exercisable at any time from the date of the International Underwriting Agreement until 30 days after the last day for the lodging of applications under the Hong Kong Public Offering, to require our Company to issue and allot up to 28,110,000 additional Offer Shares, representing 15% of the initial Offer Shares, at the Offer Price to cover, among other things, over-allocation in the International Offering, if any. If the Over-allotment Option is exercised in full, the additional Offer Shares will represent approximately 3.45% of the Company's enlarged share capital immediately following the completion of the Capitalization Issue and the Global Offering and the full exercise of the Over-allotment Option. In the event that the Over-allotment Option is exercised, an announcement will be made.

Stabilization

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the underwriters may bid for, or purchase, the securities in the secondary market, during a specified period of time, to retard and, if possible, prevent, any decline in the market price of the securities below the Offer Price. In Hong Kong and certain other jurisdictions, the price at which stabilization is effected is not permitted to exceed the Offer Price.

In connection with the Global Offering, the Stabilizing Manager or any person acting for them, on behalf of the Underwriters, may over-allocate or effect short sales or any other stabilizing transactions with a view to stabilizing or maintaining the market price of the Shares at a level higher than that which might otherwise prevail in the open market. Short sales involve the sale by the Stabilizing Manager of a greater number of Shares than the Underwriters are required to purchase in the Global Offering. "Covered" short sales are sales made in an amount not greater than the Over-allotment Option. The Stabilizing Manager may close out the covered short position by either exercising the Over-allotment Option to purchase additional Shares or purchasing Shares in the open market. In determining the source of the Shares to close out the covered short position, the Stabilizing Manager will consider, among others, the price of Shares in the open market as compared to the price at which they may purchase additional Shares pursuant to the Over-allotment Option. Stabilizing transactions consist of certain bids or purchases made for the purpose of preventing or retarding a decline in the market price of the Shares while the Global Offering is in progress. Any market purchases of the Shares may be effected on any stock exchange, including the Hong Kong 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 or any person acting for it to conduct any such stabilizing activity, which if commenced, will be done at the absolute discretion of the Stabilizing Manager and may be discontinued at any time. Any such stabilizing activity is required to be brought to

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

an end within 30 days after the last day for the lodging of applications under the Hong Kong Public Offering. The number of the Shares that may be over-allocated will not exceed the number of the Shares that may be sold under the Over-allotment Option, namely, 28,110,000 Shares, which is 15% of the number of Offer Shares initially available under the Global Offering, in the event that the whole or part of the Over-allotment Option is exercised.

In Hong Kong, stabilizing activities must be carried out in accordance with the Securities and Futures (Price Stabilizing) Rules. Stabilizing actions permitted pursuant to the Securities and Futures (Price Stabilizing) Rules include:

- (a) over-allocation for the purpose of preventing or minimising any reduction in the market price;
- (b) selling or agreeing to sell the Shares so as to establish a short position in them for the purpose of preventing or minimising any deduction in the market price;
- (c) subscribing, or agreeing to subscribe, for the Shares pursuant to the Over-allotment Option, in order to close out any position established under (a) or (b) above;
- (d) purchasing, or agreeing to purchase, the Shares for the sole purpose of preventing or minimising any reduction in the market price;
- (e) selling the Shares to liquidate a long position held as a result of those purchases; and
- (f) offering or attempting to do anything described in (b), (c), (d) and (e) above.

Stabilizing actions by the Stabilizing Manager, or any person acting for it, will be entered into in accordance with the laws, rules and regulations in place in Hong Kong on stabilization.

As a result of effecting transactions to stabilize or maintain the market price of the Shares, the Stabilizing Manager, or any person acting for it, may maintain a long position in the Shares. The size of the long position, and the period for which the Stabilizing Manager, or any person acting for it, will maintain the long position is at the discretion of the Stabilizing Manager and is uncertain. In the event that the Stabilizing Manager liquidates this long position by making sales in the open market, this may lead to a decline in the market price of the Shares.

Stabilizing action by the Stabilizing Manager, or any person acting for it, is not permitted to support the price of the Shares for longer than the stabilizing period, which begins on the day on which trading of the Shares commences on the Hong Kong Stock Exchange and ends on the thirtieth day after the last day for the lodging of applications under the Hong Kong Public Offering. The stabilizing period is expected to end on Thursday, August 6, 2020. As a result, demand for the Shares, and their market price, may fall after the end of the stabilizing period. These activities by the Stabilizing Manager may stabilize, maintain or otherwise affect the market price of the Shares. As a result, the price of the Shares may be higher than the price that otherwise may exist in the open market. Any stabilizing action taken by the Stabilizing Manager, or any person acting for it, may not necessarily result in the market price of the Shares staying at or above the Offer Price either during or after the stabilizing period. Bids for or market purchases of the Shares by the Stabilizing Manager, or any person acting for it, may be made at

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

a price at or below the Offer Price and therefore at or below the price paid for the Shares by purchasers. A public announcement in compliance with the Securities and Futures (Price Stabilizing) Ordinance will be made within seven days of the expiration of the stabilizing period.

Pricing of the Global Offering

The International Underwriters will be soliciting from prospective investors indications of interest in acquiring Offer Shares in the International Offering. Prospective professional and institutional investors will be required to specify the number of Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building”, is expected to continue up to, and to cease on or around, the last day for lodging applications under the Hong Kong Public Offering.

Pricing for the Offer Shares for the purpose of the various offerings under the Global Offering will be fixed on the Price Determination Date, which is expected to be on or around Tuesday, July 7, 2020 and in any event on or before Thursday, July 9, 2020, by agreement between the Sole Global Coordinator (on behalf of the Underwriters) and the Company and the number of Offer Shares to be allocated under various offerings will be determined shortly thereafter.

The Offer Price will not be more than HK\$11.60 per Share and is expected to be not less than HK\$9.80 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.**

The Sole Global Coordinator, on behalf of the Underwriters, may, where considered appropriate, based on the level of interest expressed by prospective professional and institutional investors during the book-building process, and with the consent of our Company, reduce the number of Offer Shares offered in the Global Offering and/or the indicative Offer Price range below that stated in this Prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, our Company will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering, cause there to be published in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) and to be posted on the website of the Hong Kong Stock Exchange (www.hkexnews.hk) and on the website of our Company (www.zulong.com) notices of the reduction. Upon issue of such a notice, the number of Offer Shares offered in the Global Offering and/or the revised Offer Price range will be final and conclusive and the Offer Price, if agreed upon by the Sole Global Coordinator, for itself and on behalf of the Underwriters, and our Company, will be fixed within such revised Offer Price range. 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. Such notice will also include confirmation or revision, as appropriate, of the Global Offering statistics as currently set out in this Prospectus, and any other financial information which may change as a result of such reduction. In the absence of any such notice so published, the Offer Price, if agreed upon with our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters), will under no circumstances be set outside the Offer Price range as stated in this Prospectus.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

In the event of a reduction in the number of Offer Shares being offered under the Global Offering, the Sole Global Coordinator may at its discretion reallocate the number of Offer Shares to be offered under the Hong Kong Public Offering and the International Offering, provided that the number of Shares comprised in the Hong Kong Public Offering shall not be less than 10% of the total number of Offer Shares in the Global Offering. The Offer Shares to be offered in the International Offering and the Offer Shares to be offered in the Hong Kong Public Offering may, in certain circumstances and subject certain conditions, be reallocated as between these offerings at the discretion of the Sole Global Coordinator.

The net proceeds of the Global Offering accruing to our Company (after deduction of underwriting commissions and other expenses payable by our Company in relation to the Global Offering, assuming the Over-allotment Option is not exercised) are estimated to be approximately HK\$1,704.4 million, assuming an Offer Price per Share of HK\$9.80, or approximately HK\$2,028.2 million, assuming an Offer Price per Share of HK\$11.60 (or if the Over-allotment Option is exercised in full, approximately HK\$1,968.9 million, assuming an Offer Price per Share of HK\$9.80, or approximately HK\$2,341.2 million, assuming an Offer Price per Share of HK\$11.60).

The final Offer Price, the indications of interest in the Global Offering, the results of applications and the basis of allotment of Offer Shares available under the Hong Kong Public Offering, are expected to be announced on Tuesday, July 14, 2020 in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) and to be posted on the website of the Hong Kong Stock Exchange (www.hkexnews.hk) and on the website of our Company (www.zulong.com).

Reduction in Offer Price range and/or number of Offer Shares

If, based on the level of interest expressed by prospective institutional, professional and other investors during the book-building process, the Sole Sponsor and the Sole Global Coordinator (on behalf of the Underwriters) considers it appropriate and together with the Company's consent, the indicative Offer Price range may be reduced below that stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, the Company will as soon as practicable following the decision to make any such reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering:

- (a) issue a supplemental prospectus, as the relevant laws or government authority or regulatory authorities may require as soon as practicable following the decision to make the change, updating investors of the change in the indicative Offer Price together with an update of all financial and other information in connection with such change;
- (b) extend the period under which the Global Offering was open for acceptance to allow potential investors sufficient time to consider their subscriptions or reconsider their existing subscriptions; and
- (c) give potential investors who had applied for the Offer Shares the right to withdraw their applications given the change in circumstances.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

In the absence of the publication of any such notice, the Offer Price shall under no circumstances be set outside the Offer Price range indicated in this prospectus. If the number of Offer Shares and/or the indicative Offer Price range is reduced, applicants who have submitted an application under the Hong Kong Public Offering will be entitled to withdraw their applications unless positive confirmations from the applicants to proceed are received.

Before submitting applications for Hong Kong Public Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the indicative Offer Price range and/or number of Offer Shares may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering.

Hong Kong Underwriting Agreement

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement and is conditional upon the International Underwriting Agreement being signed and becoming unconditional.

Our Company expects to enter into the International Underwriting Agreement relating to the International Offering on or around the Price Determination Date.

These underwriting arrangements, and the respective Underwriting Agreements, are summarized in the section headed “Underwriting”.

Shares will be eligible for CCASS

All necessary arrangements have been made enabling the Shares to be admitted into CCASS. If the Hong Kong Stock Exchange grants the listing of, and permission to deal in, the Shares and our Company complies with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Hong Kong Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of the Hong Kong Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Conditions of the Hong Kong Public Offering

Acceptance of all applications for Offer Shares pursuant to the Hong Kong Public Offering will be conditional on:

- (i) the Listing Committee granting listing of, and permission to deal in, the Offer Shares being offered pursuant to the Global Offering (including the additional Offer Shares which may be made available pursuant to the exercise of the Over-allotment Option) (subject only to allotment);
- (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

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

(iv) the obligations of the Underwriters under each of the respective Underwriting Agreements becoming and remaining unconditional and not having been terminated in accordance with the terms of the respective agreements.

If, for any reason, the Offer Price is not agreed between our Company and the Sole Global Coordinator (on behalf of the Underwriters) on or before Thursday, July 9, 2020, the Global Offering will not proceed and will lapse.

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Hong Kong Stock Exchange will be notified immediately. Notice of the lapse of the Hong Kong Public Offering will be published by our Company in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) on the next 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 Hong Kong Offer Shares”. In the meantime, all application monies will be held in separate bank account(s) with the receiving banks or other licensed bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

Share certificates for the Offer Shares are expected to be issued on Tuesday, July 14, 2020 but will only become valid certificates of title at 8:00 a.m. on Wednesday, July 15, 2020 provided that (i) the Global Offering has become unconditional in all respects; and (ii) the right of termination as described in the section headed “Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Grounds for Termination” has not been exercised.

Dealings in the Shares

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Wednesday, July 15, 2020, it is expected that dealings in the Shares on the Hong Kong Stock Exchange will commence at 9:00 a.m. on Wednesday, July 15, 2020.

The Shares will be traded in board lots of 1,000 Shares each and the stock code of the Shares will be 9990.

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 in International Offer 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 in the **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) or at www.hkeipo.hk; or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

The Company, the Sole Global Coordinator, 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 United States Person (as defined in Regulation S under the U.S. Securities Act);
- are not a legal or natural person of the PRC;
- are not an existing Shareholder and/or his/her/its close associate;
- are not a core connected person of the Company and will not become a core connected person of the Company immediately upon completion of the Global Offering; and
- have not been allocated and have not applied for or indicated interest in any Offer Share under the International Offering.

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.

HOW TO APPLY FOR HONG KONG OFFER SHARES

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 authorised officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Sole Global Coordinator may accept it at its discretion and on any conditions it thinks 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 the **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 the Company and/or its/his/her close associate;
- are 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; and
- have been allocated or have applied for any International Offer Shares or otherwise participate in the International Offering.

3. APPLYING FOR HONG KONG OFFER SHARES WHICH APPLICATION CHANNEL TO USE

For Hong Kong Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through the **HK eIPO White Form** service in the **IPO App** or on the designated website at www.hkeipo.hk.

For Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours between 9:00 a.m. from Tuesday, June 30, 2020 until 12:00 noon on Tuesday, July 7, 2020 from:

- (i) any of the following offices of the Hong Kong Underwriters:

China International Capital Corporation Hong Kong Securities Limited

29th Floor, One International Finance Centre
1 Harbour View Street Central
Hong Kong

Haitong International Securities Company Limited

22/F, Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

HOW TO APPLY FOR HONG KONG OFFER SHARES

CMB International Capital Limited

45F, Champion Tower

3 Garden Road

Central

Hong Kong

CNI Securities Group Limited

Unit A, 36/F, China Online Centre

333 Lockhart Road

Wanchai

Hong Kong

Bradbury Securities Limited

Unit 5106–07, 51/F, The Center

99 Queen's Road Central

Central, Hong Kong

(ii) any of the following branches or outlets of the receiving banks:

(a) Standard Chartered Bank (Hong Kong) Limited

	Branch Name	Address
Hong Kong Island	Central Branch	G/F, 1/F, 2/F and 27/F, Two Chinachem Central, 26 Des Voeux Road Central
	Causeway Bay Branch	G/F to 2/F, Yee Wah Mansion, 38–40A Yee Wo Street, Causeway Bay
Kowloon	Mongkok Branch	Shop B, G/F, 1/F & 2/F, 617–623 Nathan Road, Mongkok
	Tsimshatsui Branch	Shop G30 & B117–23, G/F, Mira Place One, 132 Nathan Road, Tsim Sha Tsui
New Territories	Tsuen Wan Branch	Shop C, G/F & 1/F, Jade Plaza, 298 Sha Tsui Road, Tsuen Wan

HOW TO APPLY FOR HONG KONG OFFER SHARES

(b) Bank of Communications Co., Ltd. Hong Kong Branch

	Outlet Name	Address
Kowloon	Cheung Sha Wan Plaza Sub-Branch	Unit G04 on G/F., Cheung Sha Wan Plaza, 833 Cheung Sha Wan Road
New Territories	Yuen Long Sub-Branch	Shop 2B, G/F., Man Yu Building, 2-14 Tai Fung Street, Yuen Long

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. from Tuesday, June 30, 2020 until 12:00 noon on Tuesday, July 7, 2020 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker.

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 "HORSFORD NOMINEES LIMITED — ARCHOSAUR GAMES PUBLIC OFFER" for the payment, should be deposited in the special collection boxes provided at any of the branches or outlets of the receiving banks listed above, at the following times:

- Tuesday, June 30, 2020 — 9:00 a.m. to 5:00 p.m.
- Thursday, July 2, 2020 — 9:00 a.m. to 5:00 p.m.
- Friday, July 3, 2020 — 9:00 a.m. to 5:00 p.m.
- Saturday, July 4, 2020 — 9:00 a.m. to 1:00 p.m.
- Monday, July 6, 2020 — 9:00 a.m. to 5:00 p.m.
- Tuesday, July 7, 2020 — 9:00 a.m. to 12:00 noon

The application for the Hong Kong Offer Shares will commence on Tuesday, June 30, 2020 through Tuesday, July 7, 2020, being slightly longer than normal market practice of four days.

The application lists will be open from 11:45 a.m. to 12:00 noon on Tuesday, July 7, 2020, the last application day or such later time as described in "10. Effect of Bad Weather and/or Extreme Conditions on the Opening of the Application Lists" in this section.

HOW TO APPLY FOR HONG KONG OFFER SHARES

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:

- (i) undertake to execute all relevant documents and instruct and authorise the Company and/or the Sole Global Coordinator (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 Memorandum and the Articles of Association;
- (ii) agree to comply with the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Memorandum and the Articles of Association;
- (iii) confirm that you have read the terms and conditions and application procedures set out in this Prospectus, in the Application Form, in the **IPO App** and the designated website under the **HK eIPO White Form** service, and agree to be bound by them;
- (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 the Company, the Sole Global Coordinator, the Joint Bookrunners, 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 Offering nor participated in the International Offering;
- (viii) agree to disclose to the Company, our Hong Kong Share Registrar, receiving banks, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Underwriters 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 the Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners 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

HOW TO APPLY FOR HONG KONG OFFER SHARES

purchase, or any action arising from your rights and obligations under the terms and conditions contained in this Prospectus, the Application Forms, the **IPO App** and the designated website under the **HK eIPO White Form** service;

- (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;
- (xiv) agree to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;
- (xv) authorise 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 e-Auto Refund payment instructions 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 Sole Global Coordinator 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.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Additional Terms and Conditions for Yellow Application Form

You may refer to the **YELLOW** Application Form for details.

5. APPLYING THROUGH THE HK eIPO WHITE FORM SERVICE

General

Individuals who meet the criteria in “Who can apply” in this section may apply through the **HK eIPO White Form** service for the Offer Shares to be allotted and registered in their own names through the **IPO App** or the designated website at www.hkeipo.hk.

Detailed instructions for application through the **HK eIPO White Form** service are in the **IPO App** or on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to the Company. If you apply through the **IPO App** or the designated website, 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 service

You may submit your application to the **HK eIPO White Form** Service Provider through the **IPO App** or the designated website at www.hkeipo.hk (24 hours daily, except on the last application day) from 9:00 a.m. on Tuesday, June 30, 2020 until 11:30 a.m. on Tuesday, July 7, 2020 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Tuesday, July 7, 2020 or such later time under the “10. Effect of Bad Weather and/or Extreme Conditions on the Opening of the Application List” in this section.

No Multiple Applications

If you apply by means of the **HK eIPO White Form** service, 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 the **HK eIPO White Form** service 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, the Company and all other parties involved in the preparation of this Prospectus acknowledge that each applicant who gives or causes to give electronic application instructions is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

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 +852 2979 7888 or through the CCASS Internet System (<https://ip.ccass.com>) (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input electronic application instructions for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Centre
1/F, One & Two Exchange Square
8 Connaught Place, Central
Hong Kong

and complete an input request form.

You can also collect a prospectus from 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 authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to the Company, the Sole Global Coordinator and our Hong Kong Share Registrar.

Giving Electronic Application Instructions to HKSCC via CCASS

Where you have given electronic application instructions to apply for the Hong Kong Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (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;
- (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 allocated;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- undertake and confirm that you have not applied for or taken up or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering nor participated in the International Offering;
- 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 authorised to give those instructions as their agent;
- confirm that you understand that the Company, the Directors and the Sole Global Coordinator 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;
- authorise 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;
- agree that none of the Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, 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 contained in this Prospectus (and any supplement to it);
- agree to disclose your personal data to the Company, our Hong Kong Share Registrar, the receiving banks, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Underwriters 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

HOW TO APPLY FOR HONG KONG OFFER SHARES

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 (Winding Up and Miscellaneous Provisions) 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;
- 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, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Memorandum and the Articles of Association; 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 authorised 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 authorised HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Hong Kong 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 Hong Kong Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this Prospectus.

HOW TO APPLY FOR HONG KONG OFFER SHARES

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 1,000 Hong Kong Offer Shares. Instructions for more than 1,000 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.

Time for Inputting Electronic Application Instructions⁽¹⁾

CCASS Clearing/Custodian Participants can input electronic application instructions at the following times on the following dates:

- Tuesday, June 30, 2020 — 9:00 a.m. to 8:30 p.m.
- Thursday, July 2, 2020 — 8:00 a.m. to 8:30 p.m.
- Friday, July 3, 2020 — 8:00 a.m. to 8:30 p.m.
- Monday, July 6, 2020 — 8:00 a.m. to 8:30 p.m.
- Tuesday, July 7, 2020 — 8:00 a.m. to 12:00 noon

Note:

- (1) These times 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 Tuesday, June 30, 2020 until 12:00 noon on Tuesday, July 7, 2020 (24 hours daily, except on Tuesday, July 7, 2020, the last application day).

The latest time for inputting your electronic application instructions will be 12:00 noon on Tuesday, July 7, 2020, the last application day, or such later time as described in “10. Effect of Bad Weather and/ or Extreme Conditions on the Opening of the Application Lists” in 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 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 Share Registrar, the receiving banks, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, 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. The Company, the Directors, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners 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/CCASS 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 Tuesday, July 7, 2020.

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.

HOW TO APPLY FOR HONG KONG OFFER SHARES

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 Hong Kong Stock Exchange. “Statutory control” means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

9. HOW MUCH ARE THE HONG KONG PUBLIC OFFER SHARES

The **WHITE** and **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 Hong Kong 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 1,000 Hong Kong Offer Shares. Each application or electronic application instruction in respect of more than 1,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified in the **IPO App** or on the designated website at www.hkeipo.hk.

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Hong Kong Stock Exchange trading fee are paid to the Hong Kong Stock Exchange (in the case of the SFC transaction levy, collected by the Hong Kong Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see the section headed “Structure and Conditions of the Global Offering — The Hong Kong Public Offering — Allocation”.

HOW TO APPLY FOR HONG KONG OFFER SHARES

10. EFFECT OF BAD WEATHER AND/OR EXTREME CONDITIONS ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above;
- a “black” rainstorm warning; and/or
- Extreme Conditions announced by the government of Hong Kong in accordance with the revised “Code of Practice in Times of Typhoons and Rainstorms” issued by the Hong Kong Labour Department in June 2019,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Tuesday, July 7, 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 and/or Extreme Conditions 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 Tuesday, July 7, 2020 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal and/or Extreme Conditions in force in Hong Kong that may affect the dates mentioned in “Expected Timetable”, an announcement will be made in such event.

11. PUBLICATION OF RESULTS

The Company expects to announce the final Offer Price, the level of indication of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares on Tuesday, July 14, 2020 in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) on the Company’s website at www.zulong.com and the website of the Hong Kong 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.zulong.com and the Hong Kong Stock Exchange’s website at www.hkexnews.hk by no later than 9:00 a.m. on Tuesday, July 14, 2020;
- from the “Allotment Result” function in the **IPO App** or the designated results of allocations website at www.tricor.com.hk/ipo/result or www.hkeipo.hk/IPOResult with a “search by ID” function on a 24-hour basis from 8:00 a.m. on Tuesday, July 14, 2020 to 12:00 midnight on Monday, July 20, 2020;
- by telephone enquiry line by calling +852 3691 8488 between 9:00 a.m. and 6:00 p.m. from Tuesday, July 14, 2020, to Friday, July 17, 2020 (excluding Saturday, Sunday and public holiday in Hong Kong);

HOW TO APPLY FOR HONG KONG OFFER SHARES

- in the special allocation results booklets which will be available for inspection during opening hours on Tuesday, July 14, 2020, to Thursday, July 16, 2020 at all the receiving banks designated branches or outlets.

If the Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are contained in “Structure and Conditions of the Global Offering”.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE 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 (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section 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 the Company or its agents exercise their discretion to reject your application:

The Company, the Sole Global Coordinator, 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 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 Offer 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 in the **IPO App** or on the designated website;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- the Company or the Sole Global Coordinator believes that by accepting your application, it/they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Hong Kong Public Offer Shares initially offered under the Hong Kong Public Offering.

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\$11.60 per Offer Share (excluding brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with “Structure and Conditions of the Global Offering — Conditions of the Hong Kong Public Offering” in 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 Hong Kong Stock Exchange trading fee, will be refunded, without interest or the cheque or banker's cashier order will not be cleared.

Any refund of your application monies will be made on or before Tuesday, July 14, 2020.

HOW TO APPLY FOR HONG KONG OFFER SHARES

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 below).

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 favour 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 Hong Kong 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).

Subject to arrangement on dispatch/collection of Share certificates and refund cheque(s) as mentioned below, any refund cheques and Share certificates are expected to be posted on or before Tuesday, July 14, 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 Wednesday, July 15, 2020 provided that the Global Offering has become unconditional and the right of termination described in the “Underwriting” 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 Public Offer Shares and 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 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 Tuesday, July 14, 2020 or such other date as notified by us in the newspapers.

HOW TO APPLY FOR HONG KONG OFFER SHARES

If you are an individual who is eligible for personal collection, you must not authorise any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorised representative must bear a letter of authorisation from your corporation stamped with your corporation's chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong 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 or before Tuesday, July 14, 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 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 or before Tuesday, July 14, 2020, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Tuesday, July 14, 2020, or upon 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 Public Offering Shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Public Offering Shares allotted to you with that CCASS participant.

- **If you are applying as a CCASS investor participant**

The Company will publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in "11. Publication of Results" above. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, July 14, 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.

HOW TO APPLY FOR HONG KONG OFFER SHARES

(iii) *If you apply through the HK eIPO White Form service*

If you apply for 1,000,000 or more Hong Kong Offer Shares and your application is wholly or partially successful, you may collect your Share certificate(s) from the Hong Kong 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 Tuesday, July 14, 2020, or such other date as notified by the Company in the newspapers as the date of despatch/collection of Share certificates/e-Auto Refund payment instructions/refund cheques.

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 or before Tuesday, July 14, 2020, by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-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 Tuesday, July 14, 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 Tuesday, July 14, 2020. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, July 14, 2020 or such other date as determined by HKSCC or HKSCC Nominees.

HOW TO APPLY FOR HONG KONG OFFER SHARES

- 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.
- 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 Tuesday, July 14, 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 Hong Kong 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 Tuesday, July 14, 2020.

15. ADMISSION OF THE SHARES INTO CCASS

If the Hong Kong 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 arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

The following is the text of a report set out on pages I-1 to I-3, received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus. It is prepared and addressed to the directors of the Company and to the Sole Sponsor pursuant to the requirements of HKSIR 200 Accountants' Reports on Historical Financial Information in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants.



羅兵咸永道

ACCOUNTANT'S REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF ARCHOSAUR GAMES INC. AND CHINA INTERNATIONAL CAPITAL CORPORATION HONG KONG SECURITIES LIMITED

Introduction

We report on the historical financial information of Archosaur Games Inc. (the "Company") and its subsidiaries (together, the "Group") set out on pages I-4 to I-64, which comprises the combined balance sheets as at December 31, 2017, 2018 and 2019, and the combined statements of profit or loss, the combined statements of comprehensive (loss)/income, the combined statements of changes in equity and the combined statements of cash flows for each of the years then ended (the "Track Record Period") 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-64 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated June 30, 2020 (the "Prospectus") in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Notes 1.4 and 2.1 to the Historical Financial Information, 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.

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Reporting accountant's 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 ("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 accountant's judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountant considers internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Notes 1.4 and 2.1 to the Historical Financial Information 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 accountant's report, a true and fair view of the combined financial position of the Group as at December 31, 2017, 2018 and 2019 and of its combined financial performance and its combined cash flows for the Track Record Period in accordance with the basis of presentation and preparation set out in Notes 1.4 and 2.1 to the Historical Financial Information.

REPORT ON MATTERS UNDER THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "LISTING RULES") 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 13 to the Historical Financial Information which contains information about the dividends paid by the companies now comprising the Group in respect of the Track Record Period and states that no dividends have been paid by Archosaur Games Inc. in respect of the Track Record Period.

No statutory financial statements for the Company

No statutory financial statements have been prepared for the Company since its date of incorporation.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, June 30, 2020

I HISTORICAL FINANCIAL INFORMATION OF THE GROUP

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountant's report.

The financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, were audited by PricewaterhouseCoopers in accordance with International Standards on Auditing issued by the International Auditing and Assurance Standards Board ("IAASB") ("Underlying Financial Statements").

The Historical Financial Information is presented in Renminbi and all values are rounded to the nearest thousand (RMB'000) unless otherwise indicated.

COMBINED STATEMENTS OF PROFIT OR LOSS

	Section II Note	Year ended December 31,		
		2017	2018	2019
		RMB'000	RMB'000	RMB'000
Revenue	5	1,309,207	870,067	1,067,246
Cost of revenue	8	(273,173)	(173,538)	(177,623)
Gross profit		<u>1,036,034</u>	<u>696,529</u>	<u>889,623</u>
Research and development expenses	8	(455,469)	(327,632)	(389,224)
Selling and marketing expenses	8	(230,783)	(93,723)	(114,476)
Administrative expenses	8	(99,539)	(38,914)	(57,225)
Other income	6	35,578	16,979	14,099
Other (losses)/gains, net	7	(4,775)	57,712	24,055
Operating profit		<u>281,046</u>	<u>310,951</u>	<u>366,852</u>
Finance income		7,683	12,628	8,605
Finance costs		(1,013)	(5,753)	(17,928)
Finance income/(costs), net	10	6,670	6,875	(9,323)
Fair value changes on convertible redeemable preferred shares	25	(383,563)	(381,331)	(212,455)
(Loss)/Profit before income tax		(95,847)	(63,505)	145,074
Income tax expense	11	(63,520)	(11,876)	(24,709)
(Loss)/Profit for the year		<u>(159,367)</u>	<u>(75,381)</u>	<u>120,365</u>
(Loss)/Profit attributable to:				
— Owners of the Company		(159,206)	(74,531)	119,354
— Non-controlling interests		(161)	(850)	1,011
		<u>(159,367)</u>	<u>(75,381)</u>	<u>120,365</u>
(Loss)/Earnings per share attributable to owners of the Company for the year	12	Not applicable	Not applicable	Not applicable

COMBINED STATEMENTS OF COMPREHENSIVE (LOSS)/INCOME

	<i>Section II</i> <i>Note</i>	<u>Year ended December 31,</u>		
		<u>2017</u>	<u>2018</u>	<u>2019</u>
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
(Loss)/Profit for the year		<u>(159,367)</u>	<u>(75,381)</u>	<u>120,365</u>
Other comprehensive (loss)/income, net of tax:				
<i>Items that may be reclassified to profit or loss</i>				
Currency translation differences		(857)	(648)	342
<i>Items that will not be reclassified to profit or loss</i>				
Fair value changes on convertible redeemable preferred shares due to own credit risk	25	<u>(16,411)</u>	<u>(1,552)</u>	<u>(3,455)</u>
Total comprehensive (loss)/income for the year		<u><u>(176,635)</u></u>	<u><u>(77,581)</u></u>	<u><u>117,252</u></u>
Attributable to:				
— Owners of the Company		(176,474)	(76,731)	116,241
— Non-controlling interests		<u>(161)</u>	<u>(850)</u>	<u>1,011</u>
		<u><u>(176,635)</u></u>	<u><u>(77,581)</u></u>	<u><u>117,252</u></u>

COMBINED BALANCE SHEETS

	<i>Section II</i> <i>Note</i>	As at December 31,		
		2017	2018	2019
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Assets				
Non-current assets				
Property, plant and equipment	14	8,991	9,666	8,708
Right-of-use assets	16	13,975	38,697	41,968
Intangible assets	15	34,650	33,639	44,033
Prepayment, other receivables and other assets .	19	20,373	26,047	20,261
Deferred tax assets	27	<u>6,598</u>	<u>6,701</u>	<u>7,188</u>
		<u>84,587</u>	<u>114,750</u>	<u>122,158</u>
Current assets				
Trade receivables	18	294,108	280,722	545,775
Prepayment, other receivables and other assets .	19	61,209	33,582	33,318
Financial assets at fair value through profit or loss	20	663,749	531,197	330,968
Term deposits	21(b)	229,285	—	142,663
Cash and cash equivalents	21(a)	<u>383,609</u>	<u>588,391</u>	<u>728,318</u>
		<u>1,631,960</u>	<u>1,433,892</u>	<u>1,781,042</u>
Total assets		<u><u>1,716,547</u></u>	<u><u>1,548,642</u></u>	<u><u>1,903,200</u></u>
Equity and liabilities				
Equity attributable to owners of the Company				
Combined capital	22	8,111	8,111	577,975
Other reserves	23	195,512	197,990	189,877
Retained earnings/(Accumulated losses)		<u>149,791</u>	<u>(152,240)</u>	<u>(597,750)</u>
		353,414	53,861	170,102
Non-controlling interests		<u>(161)</u>	<u>(1,011)</u>	<u>—</u>
Total equity		<u><u>353,253</u></u>	<u><u>52,850</u></u>	<u><u>170,102</u></u>

	<i>Section II</i> <i>Note</i>	As at December 31,		
		2017	2018	2019
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Liabilities				
Non-current liabilities				
Contract liabilities	5	25,934	13,667	10,171
Lease liabilities	16	358	10,341	22,643
Deferred tax liabilities	27	11	—	—
Convertible redeemable preferred shares	25	915,505	1,043,738	1,259,648
Other non-current liabilities	26	—	157,468	174,195
		<u>941,808</u>	<u>1,225,214</u>	<u>1,466,657</u>
Current liabilities				
Trade and other payables	28	299,508	164,900	156,864
Contract liabilities	5	81,012	66,865	62,375
Current income tax liabilities		33,399	16,286	32,582
Lease liabilities	16	7,567	22,527	14,620
		<u>421,486</u>	<u>270,578</u>	<u>266,441</u>
Total liabilities		<u><u>1,363,294</u></u>	<u><u>1,495,792</u></u>	<u><u>1,733,098</u></u>
Total equity and liabilities		<u><u>1,716,547</u></u>	<u><u>1,548,642</u></u>	<u><u>1,903,200</u></u>

COMBINED STATEMENTS OF CHANGES IN EQUITY

	Section II Note	Attributable to owners of the Company				Non- controlling interests	Total equity
		Combined capital	Other reserves	Retained earnings	Subtotal		
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at January 1, 2017		<u>7,000</u>	<u>4,997</u>	<u>457,780</u>	<u>469,777</u>	<u>—</u>	<u>469,777</u>
Comprehensive loss							
Loss for the year		—	—	(159,206)	(159,206)	(161)	(159,367)
Other comprehensive loss							
<i>Items that may be reclassified to profit or loss</i>							
Currency translation differences . . .		—	(857)	—	(857)	—	(857)
<i>Items that will not be reclassified to profit or loss</i>							
Fair value changes on convertible redeemable preferred shares due to own credit risk	25	—	(16,411)	—	(16,411)	—	(16,411)
Total comprehensive loss		<u>—</u>	<u>(17,268)</u>	<u>(159,206)</u>	<u>(176,474)</u>	<u>(161)</u>	<u>(176,635)</u>
Transactions with owners in their capacity as owners							
Capital contribution		1,111	—	—	1,111	—	1,111
Appropriation to statutory reserves .		—	8,783	(8,783)	—	—	—
Share-based compensation	24	—	199,000	—	199,000	—	199,000
Dividends	13	—	—	(140,000)	(140,000)	—	(140,000)
Total transactions with owners in their capacity as owners		<u>1,111</u>	<u>207,783</u>	<u>(148,783)</u>	<u>60,111</u>	<u>—</u>	<u>60,111</u>
Balance at December 31, 2017 . . .		<u><u>8,111</u></u>	<u><u>195,512</u></u>	<u><u>149,791</u></u>	<u><u>353,414</u></u>	<u><u>(161)</u></u>	<u><u>353,253</u></u>

		<u>Attributable to owners of the Company</u>					
	<i>Section II Note</i>	Combined capital	Other reserves	Retained earnings/ (Accumulated losses)	Subtotal	Non- controlling interests	Total equity
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Balance at January 1, 2018 . . .		<u>8,111</u>	<u>195,512</u>	<u>149,791</u>	<u>353,414</u>	<u>(161)</u>	<u>353,253</u>
Comprehensive loss							
Loss for the year		—	—	(74,531)	(74,531)	(850)	(75,381)
Other comprehensive loss							
<i>Items that may be reclassified to profit or loss</i>							
Currency translation differences . .		—	(648)	—	(648)	—	(648)
<i>Items that will not be reclassified to profit or loss</i>							
Fair value changes on convertible redeemable preferred shares due to own credit risk	25	<u>—</u>	<u>(1,552)</u>	<u>—</u>	<u>(1,552)</u>	<u>—</u>	<u>(1,552)</u>
Total comprehensive loss		<u>—</u>	<u>(2,200)</u>	<u>(74,531)</u>	<u>(76,731)</u>	<u>(850)</u>	<u>(77,581)</u>
Transactions with owners in their capacity as owners							
Capital contribution	26	—	4,678	—	4,678	—	4,678
Dividends	13	<u>—</u>	<u>—</u>	<u>(227,500)</u>	<u>(227,500)</u>	<u>—</u>	<u>(227,500)</u>
Total transactions with owners in their capacity as owners . .		<u>—</u>	<u>4,678</u>	<u>(227,500)</u>	<u>(222,822)</u>	<u>—</u>	<u>(222,822)</u>
Balance at December 31, 2018 .		<u><u>8,111</u></u>	<u><u>197,990</u></u>	<u><u>(152,240)</u></u>	<u><u>53,861</u></u>	<u><u>(1,011)</u></u>	<u><u>52,850</u></u>

	Section II Note	Attributable to owners of the Company				Non- controlling interests	Total equity
		Combined capital	Other reserves	Accumulated losses	Subtotal		
		RMB'000	RMB'000	RMB'000	RMB'000		
Balance at January 1, 2019		<u>8,111</u>	<u>197,990</u>	<u>(152,240)</u>	<u>53,861</u>	<u>(1,011)</u>	<u>52,850</u>
Comprehensive income							
Profit for the year		—	—	119,354	119,354	1,011	120,365
Other comprehensive income/ (loss)							
<i>Items that may be reclassified to profit or loss</i>							
Currency translation differences . .		—	342	—	342	—	342
<i>Items that will not be reclassified to profit or loss</i>							
Fair value changes on convertible redeemable preferred shares due to own credit risk	25	<u>—</u>	<u>(3,455)</u>	<u>—</u>	<u>(3,455)</u>	<u>—</u>	<u>(3,455)</u>
Total comprehensive income . . .		<u>—</u>	<u>(3,113)</u>	<u>119,354</u>	<u>116,241</u>	<u>1,011</u>	<u>117,252</u>
Transactions with owners in their capacity as owners							
Share reformation	22	569,864	(5,000)	(564,864)	—	—	—
Total transactions with owners in their capacity as owners . .		<u>569,864</u>	<u>(5,000)</u>	<u>(564,864)</u>	<u>—</u>	<u>—</u>	<u>—</u>
Balance at December 31, 2019 . .		<u><u>577,975</u></u>	<u><u>189,877</u></u>	<u><u>(597,750)</u></u>	<u><u>170,102</u></u>	<u><u>—</u></u>	<u><u>170,102</u></u>

COMBINED STATEMENTS OF CASH FLOWS

	<i>Section II</i> <i>Note</i>	Year ended December 31,		
		2017	2018	2019
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cash flows from operating activities				
Cash generated from operations	29	665,178	157,763	103,260
Interest received		6,033	6,929	7,120
Income tax paid		<u>(45,518)</u>	<u>(29,269)</u>	<u>(9,792)</u>
Net cash generated from operating activities .		<u>625,693</u>	<u>135,423</u>	<u>100,588</u>
Cash flows from investing activities				
Purchases of property, plant and equipment . . .		(3,541)	(6,807)	(5,720)
Purchases of intangible assets		(31,964)	(12,647)	(20,070)
Purchases of wealth management products classified as fair value through profit or loss assets	20	(3,715,089)	(3,062,700)	(2,575,030)
Purchases of term deposits		(229,808)	(195,725)	(142,663)
Proceeds from maturity of term deposits		—	440,858	—
Proceeds from maturity of wealth management products classified as fair value through profit or loss assets		3,339,882	3,189,991	2,776,740
Interest income from term deposits		—	6,915	—
Investment income from wealth management products		<u>19,414</u>	<u>36,997</u>	<u>25,158</u>
Net cash (used in)/generated from investing activities		<u>(621,106)</u>	<u>396,882</u>	<u>58,415</u>

	<i>Section II</i> <i>Note</i>	Year ended December 31,		
		2017	2018	2019
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cash flows from financing activities				
Proceeds from issuance of convertible redeemable preferred shares	25	260,000	—	—
Proceeds from issuance of combined capital . . .		—	1,111	—
Proceeds from bank borrowings		3,000	—	—
Repayments of bank borrowings		(3,000)	—	—
Principal elements of lease payments	29	(21,244)	(17,345)	(22,527)
Dividends paid	13, 25	(200,000)	(325,000)	—
Interest paid		(947)	(667)	(1097)
Payment of listing expenses		—	—	(432)
Net cash generated from/(used in)				
financing activities		<u>37,809</u>	<u>(341,901)</u>	<u>(24,056)</u>
Net increase in cash and cash equivalents . . .		<u>42,396</u>	<u>190,404</u>	<u>134,947</u>
Cash and cash equivalents at beginning of the year		371,419	383,609	588,391
Exchange (losses)/gains on cash and cash equivalents		<u>(30,206)</u>	<u>14,378</u>	<u>4,980</u>
Cash and cash equivalents at end of the year	21	<u><u>383,609</u></u>	<u><u>588,391</u></u>	<u><u>728,318</u></u>

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1 GENERAL INFORMATION, REORGANIZATION AND BASIS OF PRESENTATION

1.1 General information

Archosaur Games Inc. 祖龙娱乐有限公司 (the “Company”) was incorporated in the Cayman Islands on January 2, 2020 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of the Company’s registered office is Harneys Fiduciary (Cayman) Limited, 4th Floor, Harbour Place, 103 South Church Street, P.O. Box 10240, Grand Cayman KY1-1002, Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries (together, the “Group”) are principally engaged in the development and operating of mobile games in the People’s Republic of China (the “PRC”) and other countries and regions (the “Listing Business”).

1.2 History of the Group

Prior to the incorporation of the Company and completion of the Group reorganization as described in Note 1.3 below (“Reorganization”), the Listing Business was carried out through Tianjin Loong Technology Co., Ltd. (祖龍(天津)科技股份有限公司) (“Tianjin Loong”), and its subsidiaries, including Beijing Fantasy Mermaid Technology Limited (北京幻想美人魚科技有限公司) (“Beijing Fantasy Mermaid”), Chengdu Fantasy Mermaid Technology Limited (成都幻想美人魚科技有限公司) (“Chengdu Fantasy Mermaid”), Huai’an Loong Technology Co., Ltd. (淮安祖龍科技有限公司) (“Huai’an Loong”), Horgos Loong Technology Development Co., Ltd. (霍爾果斯祖龍科技發展有限公司) (“Horgos Loong”), Famous Game Company Limited (名遊有限公司) (“Famous Game”) and Famous Heart Limited (名心有限公司) (“Famous Heart”) (collectively, the “Operating Entities”), throughout the Track Record Period.

Tianjin Loong was established in the PRC as a limited liability company on April 15, 2015. It was founded and initially owned as to 100% by Beijing Loong Game Technology Limited (“Beijing Loong”), which was in turn owned as to 81.96%, 6.94%, 5.55% and 5.55% by Mr. Li Qing, Mr. Zhang Yu, Mr. Xiang Nan, and Mr. Bai Wei, respectively.

On August 18, 2015, the registered capital of Tianjin Loong increased from RMB7.0 million to RMB10.0 million with the additional capital contributed by Perfect World Games Co., Ltd. (“Perfect World”), which led to an increase of convertible redeemable preferred shares. Upon completion of such investment by Perfect World, Tianjin Loong was owned as to 70.00% by Beijing Loong and 30.00% by Perfect World.

On January 11, 2017, Tianjin Loong, Beijing Loong, Linzhi Lichuang Information Technology Co., Ltd. (“Linzhi Lichuang”) and Ningbo Long Ren Enterprise Management Partnership (Limited Partnership) (“Ningbo Longren”) entered into a capital increase agreement which increased the combined capital and convertible redeemable preferred shares. Upon the completion of such agreement, Tianjin Loong was owned as to 54.81%, 23.49%, 13.00% and 8.70% by Beijing Loong, Perfect World, Linzhi Lichuang and Ningbo Longren, respectively.

On August 24, 2018, Beijing Loong and Perfect World entered into an equity transfer agreement, pursuant to which Perfect World agreed to transfer 4.49% of equity interests in Tianjin Loong to Beijing Loong. Upon the completion of such equity transfer, Tianjin Loong was owned as to 59.30%, 19.00%, 13.00% and 8.70% by Beijing Loong, Perfect World, Linzhi Lichuang and Ningbo Longren, respectively.

On January 14, 2019, Tianjin Loong was converted into a joint stock limited company and its registered capital was increased to RMB100.0 million. The additional capital was contributed by its registered shareholders in proportion to their respective percentage of equity interest.

On December 2, 2019, additional capital was contributed by Ningbo Meishan Bonded Port Qian Ce Enterprise Management Partnership (Limited Partnership) (“Ningbo Qiance”) to Tianjin Loong. Upon completion of the capital contribution, Tianjin Loong was owned as to 56.34%, 18.05%, 12.35%, 8.27% and 5.00% by Beijing Loong, Perfect World, Linzhi Lichuang, Ningbo Longren and Ningbo Qiance, respectively.

1.3 Reorganization of the Group

In preparing for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited, the Group underwent the Reorganization, pursuant to which the beneficial interests in the companies engaged in the Listing Business were transferred to the Company. Details of the Reorganization are set out below:

(i) *Offshore reorganization*

In late 2019, the respective ultimate beneficial owners of Beijing Loong, Ningbo Longren and Ningbo Qiance had incorporated a series of companies in the British Virgin Islands ("BVI"), including Cresc Chorus Limited ("Cresc Chorus"), Green Particle Limited ("Green Particle") and Smooth Ebony Limited ("Smooth Ebony"). Smooth Ebony acts as the holding company to hold the shares on trust under the RSU Scheme (defined in Note 24(b)).

On January 2, 2020, the Company was incorporated as an exempted company with limited liabilities in the Cayman Islands with an authorized share capital of United States Dollar ("US\$") 50,000 divided into 5,000,000,000 shares with a par value of US\$0.00001 each. On the same day, following the Company's issue of one share to Harneys Fiduciary (Cayman) Limited, an independent third party, which was subsequently transferred to Cresc Chorus, the Company was owned as to (i) 56,335,000 shares by Cresc Chorus; (ii) 8,265,000 shares by Green Particle; and (iii) 5,000,000 shares by Smooth Ebony.

On March 4, 2020, the Company, its subsidiaries, Tianjin Loong, Huai'an Loong and the offshore investment vehicles of Tianjin Loong's registered shareholders (namely Cresc Chorus, Green Particle, Smooth Ebony, Perfect World Interactive Entertainment Co., Ltd. ("Perfect World Interactive") and Image Frame Investment (HK) Limited ("Image Frame"), (collectively, the "Offshore Shareholders"), among others, entered into the Offshore Share Subscription Agreement and the Offshore Shareholders Agreement. Pursuant to the Offshore Share Subscription Agreement, the Company has allotted and Perfect World Interactive and Image Frame have subscribed for 18,050,000 Series A preferred shares and 12,350,000 Series B preferred shares for nominal consideration of US\$1.0 each, respectively, to substantially reflect the rights, obligations and shareholdings in Tianjin Loong held by their affiliates (namely, Perfect World and Linzhi Lichuang, respectively) and their respective rights reflected in the Onshore Shareholders Agreement.

On March 4, 2020, pursuant to the Offshore Share Purchase Agreement, Cresc Chorus as vendor agreed to sell and each of Perfect World Interactive and Image Frame as purchaser agreed to purchase 4,500,000 ordinary shares of the Company for a consideration of RMB220.0 million each. Such shares have been re-designated into Series C-1 preferred shares upon closing, which would be recognised as convertible redeemable preferred shares. The consideration received by Cresc Chorus was determined based on the fair value of Series C-1 preferred shares. The fair value of the Series C-1 preferred shares over the fair value of the transferred ordinary shares would be deemed as share-based compensation and recognised as expenses in 2020.

On the same day, Perfect World Interactive and Image Frame, among others, entered into the Offshore Share Subscription Agreement pursuant to which they each further subscribed for 1,020,408 Series C-2 preferred shares for U.S. dollars equivalent of RMB50.0 million, which would be recognised as convertible redeemable preferred shares.

On January 7, 2020, Archosaur Entertainment Limited ("Archosaur Entertainment") was incorporated in the BVI as a BVI business company with limited liability with the initial authorized share capital of US\$50,000 divided into 50,000 shares of US\$1.0 each. Upon incorporation, one share, representing the entire issued share capital of Archosaur Entertainment, was issued and allotted to the Company at par value. Upon the completion of such issue and allotment, Archosaur Entertainment became a directly wholly-owned subsidiary of the Company.

Prior to the Reorganization, Famous Heart and Famous Game were wholly-owned by Tianjin Loong. For the purpose of Reorganization, on February 3, 2020, Tianjin Loong transferred all of its shares in Famous Game to Archosaur Entertainment. On March 4, 2020, Tianjin Loong transferred all of its shares in Famous Heart to Archosaur Entertainment.

(ii) *Onshore reorganization*

On January 14, 2020, Tianjin Loong transferred 2.00% of the equity interest of Beijing Fantasy Mermaid to Mr. Liu Yongji, being an independent third party. On March 10, 2020, pursuant to the equity transfer agreement entered into between Famous Game as transferee and each of Tianjin Loong and Mr. Liu Yongji as transferor, Famous Game acquired 100% of the equity interest of Beijing Fantasy Mermaid, after which Beijing Fantasy Mermaid becomes a wholly-owned foreign enterprise in the PRC and an indirectly wholly-owned subsidiary of the Company.

From January 16, 2020, Tianjin Loong and Huai'an Loong commenced the transfer of their non-restricted business. Physical assets (such as computer equipment and facilities), intellectual properties, personnel and business contracts relating to the operation of non-restricted business were transferred to Beijing Fantasy Mermaid and Chengdu Fantasy Mermaid.

Pursuant to a series of contractual arrangements dated March 10, 2020 (collectively, the "Contractual Arrangements") entered into by, among others, Beijing Fantasy Mermaid, Tianjin Loong and its registered shareholders, Beijing Fantasy Mermaid is able to exercise and maintain control over the operation and to receive substantially all the economic benefit of the business and operations of Tianjin Loong and its subsidiaries established from time to time (collectively, the "Consolidated Affiliated Entities"). Accordingly, the Consolidated Affiliated Entities are treated as controlled structured entities of Beijing Fantasy Mermaid and ultimately controlled and consolidated by the Company. Further details of the Contractual Arrangements are set out in Note 2.2(a)(i) below.

Upon the completion of the Reorganization, the Company became the holding company of the other companies comprising the Group.

Upon the completion of the Reorganization and as at the date of this report, the Company had direct or indirect interests in the following subsidiaries:

Name of subsidiaries	Nature of subsidiaries	Place and date of incorporation/ establishment	Registered capital	Equity interest held as at			Date of this report	Principal activities and place of operation	Note
				December 31, 2017	2018	2019			
Directly held by the Company									
Archosaur Entertainment Limited	British Virgin Islands, BVI business company with limited liability	British Virgin Islands/ January 7, 2020	US\$50,000	N/A	N/A	N/A	100%	Investment holding, the BVI	(f)
Indirectly held by the Company									
Beijing Fantasy Mermaid Technology Co., Ltd.	People's Republic of China, limited liability company	Beijing, China/ September 9, 2014	RMB10,000,000	100%	100%	100%	100%	Mobile game development, the PRC	(a)
Famous Heart Limited	Hong Kong, limited liability company	Hong Kong/ October 23, 2014	Hong Kong Dollar ("HK\$") 8,000,000	100%	100%	100%	100%	Overseas mobile game operation, Hong Kong	(e)
Tianjin Loong Technology Co., Ltd.	People's Republic of China, joint stock limited company	Tianjin, China/April 15, 2015	RMB105,263,157	100%	100%	100%	100%	Mobile game operation, the PRC	(a)
Huai'an Loong Technology Co., Ltd.	People's Republic of China, limited liability company	Huai'an, China/ August 19, 2016	RMB10,000,000	100%	100%	100%	100%	Mobile game operation, the PRC	(a)
Horgos Loong Technology Development Co., Ltd.	People's Republic of China, limited liability company	Horgos, China/ March 29, 2017	RMB10,000,000	100%	100%	100%	N/A	Mobile game development, the PRC	(c)
Famous Game Company Limited	Hong Kong, limited liability company	Hong Kong/ August 5, 2019	US\$10,000,000	N/A	N/A	100%	100%	Mobile game operation, Hong Kong	(f)
Chengdu Fantasy Mermaid Technology Limited	People's Republic of China, limited liability company	Chengdu, China/ December 10, 2019	RMB10,000,000	N/A	N/A	100%	100%	Mobile game development, the PRC	(f)
Hai'nan Loong Technology Co., Ltd.	People's Republic of China, limited liability company	Hai'nan, China/ April 14, 2020	RMB10,000,000	N/A	N/A	N/A	100%	Mobile game operation, the PRC	(f)

Name of subsidiaries	Nature of subsidiaries	Place and date of incorporation/ establishment	Registered capital	Equity interest held as at			Date of this report	Principal activities and place of operation	Note
				2017	2018	2019			
Huai'an Zhizun Network Technology Co., Ltd. . . .	People's Republic of China, limited liability company	Huai'an, China/ December 17, 2014	RMB10,000,000	100%	100%	N/A	N/A	Mobile game development, the PRC	(d) (g)
Kunpeng (Tianjin) Technology Co., Ltd. . . .	People's Republic of China, limited liability company	Tianjin, China/ August 15, 2017	RMB100,000	80%	80%	N/A	N/A	Mobile game development, the PRC	(b) (g)
Tianjin Longyu Information Technology Co., Ltd. . . .	People's Republic of China, limited liability company	Tianjin, China/ August 24, 2017	RMB100,000	100%	100%	N/A	N/A	Mobile game operation, the PRC	(b) (g)

Notes:

- (a) The statutory auditor of these subsidiaries for the year ended December 31, 2017 was 上會會計師事務所(特殊普通合夥)北京分所 (Shanghai Certified Public Accountants (Special General Partnership) Beijing Branch). The statutory auditor of these subsidiaries for the year ended December 31, 2018 was 立信會計師事務所有限公司 (BDO China Shu Lun Pan Certified Public Accountants LLP). The statutory auditor of these subsidiaries for the year ended December 31, 2019 was 北京首律會計師事務所(普通合夥) (Beijing Shoulv Certified Public Accountants (General Partnership)).
- (b) No statutory financial statements have been prepared for the year ended December 31, 2017 by these subsidiaries as they did not have substantive business and there were no statutory audit requirements under the applicable law in the place of incorporation of the entities. The statutory auditor of these subsidiaries for the year ended December 31, 2018 was 立信會計師事務所有限公司 (BDO China Shu Lun Pan Certified Public Accountants LLP).
- (c) The statutory auditor of this subsidiary for the year ended December 31, 2017 was 上會會計師事務所(特殊普通合夥)北京分所 (Shanghai Certified Public Accountants (Special General Partnership) Beijing Branch). No statutory financial statements have been prepared for the year ended December 31, 2018 and 2019 by this subsidiary as it did not have substantive business and there were no statutory audit requirements under the applicable law in the place of incorporation of the entity. This subsidiary was deregistered on April 1, 2020.
- (d) No statutory financial statements have been prepared by this subsidiary as it does not have substantive business and there are no statutory audit requirements under the applicable law in the place of incorporation of the entity.
- (e) The auditor of subsidiary for the year ended December 31, 2017, 2018 and 2019 was SRF Partner & Co. Certified Public Accountants Hong Kong Branch.
- (f) No statutory financial statements have been prepared by these subsidiaries as they were newly established in 2019 or 2020.
- (g) In 2019, these subsidiaries were deregistered.

The statutory financial statements of these subsidiaries established in PRC were prepared in accordance with the relevant accounting principles and financial regulations applicable to the PRC enterprises.

The English names of the subsidiaries referred in the above represent management's best effort in translating the Chinese names of these subsidiaries as they do not have official English names.

All companies comprising the Group have adopted December 31 as their financial year-end date.

The Group's major subsidiaries are based in the PRC and majority of their transactions are denominated in RMB. The conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchanges control promulgated by the PRC government. As at December 31, 2017, 2018 and 2019, other than the restrictions from exchange control regulations, there is no significant restriction on the Group's ability to access or use the assets and settle the liabilities of the Group.

1.4 Basis of presentation

Immediately prior to and after the Reorganization, the Listing Business was carried out by Tianjin Loong and its subsidiaries. Pursuant to the Reorganization, the Listing Business are effectively controlled by Beijing Fantasy Mermaid, and ultimately controlled by the Company, through direct equity holding and the Contractual Arrangements. The Company and those companies newly set up during the Reorganization have not been involved in any other business prior to the Reorganization and their operations do not meet the definition of a business. The Reorganization is merely a reorganization of the Listing Business and does not result in any changes in business substance, nor in any management or owners of the Listing Business. Accordingly, the Group resulting from the Reorganization is regarded as a continuation of the Listing Business and the Historical Financial Information of the companies now comprising the Group is presented using the carrying value of the Listing Business for all periods presented.

Intercompany transactions, balances and unrealized gains/losses on transactions between companies now comprising the Group are eliminated on combination.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the Historical Financial Information are set out below. These policies have been consistently applied throughout the Track Record Period, unless otherwise stated.

2.1 Basis of preparation

The principal accounting policies applied in the preparation of the Historical Financial Information are in accordance with the International Financial Reporting Standards (“IFRSs”). The Historical Financial Information has been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities at fair value through profit or loss, which are carried at fair value.

The preparation of the Historical Financial Information in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in Note 4 below.

IFRS 9 “Financial Instruments” (“IFRS 9”) and IFRS 15 “Revenue from Contracts with Customers” (“IFRS 15”) are mandatorily effective for the financial year beginning on or after January 1, 2018. IFRS 16 “Leases” (“IFRS 16”) is mandatorily effective for financial year beginning on or after January 1, 2019. In preparation of the Historical Financial Information, these new standards together with other newly effective standards, amendments to standards and interpretations, which are mandatory for the financial year beginning January 1, 2019 and before, have been consistently applied to the Group throughout the Track Record Period.

The following new standards, amendments and interpretations to existing standards have been issued but not yet effective and not been early adopted by the Group during the Track Record Period. Based on the Group’s current assessment, the directors of the Company do not expect a material impact on the Group’s financial position and performance as a result of the adoption of these new standards when they become effective.

Standards and amendments	Effective for annual periods beginning on or after
Revised Conceptual Framework for Financial Reporting	January 1, 2020
Amendments to IAS 1 and IAS 8 — Definition of Material	January 1, 2020
Amendments to IFRS 3 — Definition of a Business	January 1, 2020
IFRS 17 Insurance Contracts	January 1, 2021
Amendments to IFRS 10 and IAS 28 — Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

2.2 Subsidiaries

(a) Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the combined statements of profit or loss, statements of comprehensive income, statements of changes in equity and balance sheets respectively.

(i) Subsidiaries controlled through Contractual Arrangements

As described in Note 1.3, the wholly-owned subsidiary of the Company, Beijing Fantasy Mermaid, has entered into the Contractual Arrangements, including Exclusive Business Cooperation Agreement, Exclusive Option Agreement, Equity Pledge Agreement, and Powers of Attorney, with Tianjin Loong and its equity holders, which enable Beijing Fantasy Mermaid and the Group to:

- exercise effective control over the Consolidated Affiliated Entities;
- exercise equity holders' voting rights of the Consolidated Affiliated Entities;
- receive substantially all of the economic interest returns generated by the Consolidated Affiliated Entities in consideration for the technical support, consulting and other services provided by Beijing Fantasy Mermaid;
- obtain an irrevocable and exclusive right to purchase all or part of the equity interests in Tianjin Loong from the respective equity holders at a minimum purchase price permitted under PRC laws and regulations. Beijing Fantasy Mermaid may exercise such options at any time until it has acquired all equity interests of Tianjin Loong;
- obtain a pledge over the entire equity interests of Tianjin Loong from its respective equity holders as collateral security for all of Tianjin Loong's payments due to Beijing Fantasy Mermaid and to secure performance of Tianjin Loong's obligation under the Contractual Arrangements.

As a result of the Contractual Arrangements, the Group has rights to exercise power over the Consolidated Affiliated Entities, receive variable returns from its involvement with the Consolidated Affiliated Entities, has the ability to affect those returns through its power over the Consolidated Affiliated Entities and is considered to control the Consolidated Affiliated Entities. Consequently, the Company regards the Consolidated Affiliated Entities as the controlled entities and consolidated the financial position and results of operations of these entities in the combined financial statements of the Group during the Track Record Period (Refer to Note 1.4 of Section II above for details of the related presentation basis).

Nevertheless, the Contractual Arrangements may not be as effective as direct legal ownership in providing the Group with direct control over the Consolidated Affiliated Entities and such uncertainties presented by the PRC legal system could impede the Group's beneficiary rights of the results, assets and liabilities of the Consolidated Affiliated Entities. The directors of the Company, based on the advice of its legal counsel, consider that the Contractual Arrangements are in compliance with the relevant PRC laws and regulations and are legally binding and enforceable.

(ii) Business combination

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognized amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by IFRS.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognized in profit or loss.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions. Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognized and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the statement of profit or loss.

Intra-group transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

(iii) *Changes in ownership interests in subsidiaries without change of control*

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions — that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(iv) *Disposal of subsidiaries*

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income ("OCI") in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRS.

(b) *Separate financial statements*

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors of the Group.

2.4 Foreign currency translation

(a) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currencies of the Company is HK\$, while the functional currencies of the Company's subsidiaries in the PRC are RMB. As the major operations of the Group during the Track Record Period are within the PRC, the Group determined to present its Historical Financial Information in RMB (unless otherwise stated), which is the Group's presentation currency.

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of profit or loss.

Foreign exchange gains and losses that relate to borrowings are presented in the statement of profit or loss, within "finance income/(costs), net". All other foreign exchange gains and losses are presented in the statement of profit or loss on a net basis within "other (losses)/gains, net".

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as fair value through other comprehensive income are recognised in other comprehensive income.

(c) *Group companies*

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each statement of profit or loss are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting currency translation differences are recognized in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognized in other comprehensive income.

2.5 Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives or in the case of leasehold improvements, the shorter lease term, as follows:

Office equipment	4 years
Furniture	4 years
Leasehold improvements	Estimated useful lives or remaining lease terms, whichever is shorter

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.7).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within "other (losses)/gains, net" in the combined statements of profit or loss.

2.6 Intangible assets

(a) Software

Acquired computer software are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives of three to ten years, and recorded in amortization within operating expenses in the combined statements of profit or loss. Length of estimated useful life is determined to be the shorter of the period of contractual rights or estimated period during which such software can bring economic benefits to the Group.

(b) Copyrights and game licenses

Copyrights are initially recorded at cost and are amortized on a straight-line basis over their estimated useful lives of one to five years.

Under certain online mobile games arrangements entered between the Group and the intellectual property ("IP") holders, the Group pays non-refundable upfront licensing fees to the IP holders as the Group is entitled to use such IP to develop online mobile games. The Group recognizes the licensing fee as an intangible asset. This intangible asset is amortized on a straight-line basis upon the commercial launch of the related online mobile games over the shorter of the expected economic life or license period of the relevant online mobile games ranging from two to five years.

(c) Trademark and domain names

Trademark and domain names are initially recognized and measured at costs incurred to acquire and bring to use them. The costs are amortized on a straight-line basis over the trademark and domain names' estimated useful lives of five to ten years and recorded in amortization within operating expenses in the combined statements of profit or loss. Length of estimated useful life is determined to be the period of effective registration during which such trademark and domain names can bring economic benefits to the Group.

2.7 Impairment of non-financial assets

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortization and are tested annually for impairment. Other assets are tested for impairment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.8 Investments and other financial assets

(i) Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income ("FVOCI").

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

(ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(iii) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVPL"), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in "other (losses)/gains, net", together with foreign exchange gains and losses. Impairment losses are presented in administrative expenses in the statement of profit or loss.
- **FVOCI:** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in "other (losses)/gains, net". Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in "other (losses)/gains, net", and impairment expenses are presented in "administrative expenses" in the statement of profit or loss.
- **FVPL:** Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within "other (losses)/gains, net" in the period in which it arises.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in "other (losses)/gains, net" in the statements of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

(iv) Impairment

The Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see Note 3.1 for further details.

2.9 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

2.10 Derivatives

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period.

Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in profit or loss and are included in "other (losses)/gains, net".

2.11 Trade and other receivables

Trade receivables are amounts due from customers for services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. See Note 18 for further information about the Group's accounting for trade receivables and Note 3.1 for a description of the Group's impairment policies.

2.12 Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

2.13 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Convertible redeemable preferred shares are classified as liabilities (Note 25).

2.14 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

2.15 Borrowings and borrowing costs

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the statements of profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

2.16 Convertible redeemable preferred shares

Capitals with preferred rights ("Preferred Shares") issued by the Group are redeemable upon occurrence of certain future events. These instruments are also attached with a conversion option.

The Group designated the Preferred Shares as financial liabilities at fair value through profit or loss. They are initially recognized at fair value. Any directly attributable transaction costs are recognized as finance costs in profit or loss. The component of fair value changes relating to the Company's own credit risk is recognized in OCI. Amounts recorded in OCI related to credit risk are not subject to recycling in profit or loss, but are transferred to retained earnings when realised. Fair value changes relating to market risk are recognized in profit or loss.

The Preferred Shares were classified as non-current liabilities unless the Preferred Shares holders can demand the Company to redeem the Preferred Shares within 12 months after the end of the reporting period.

2.17 Redemption liability

Redemption liability arises from put options granted by the Group, where the counterparties have the right to request the Group to purchase the equity instrument held by the counterparty for cash when certain conditions are met. As the Group does not have the unconditional right to avoid delivering cash or another financial assets under the put options, the Group recognized a financial liability at the present value of the estimated future cash outflows of the redemption obligation.

Subsequently, if the Group revises its estimates of payments, the Group will adjust the carrying amount of the financial liability to reflect the present value of revised estimated future cash outflows at the financial instrument's original effective interest rate, and the adjustments will be recognized in the combined statements of profit or loss. If the put option expires without delivery, the carrying amount of the liability is reclassified to equity. The redemption liabilities are classified as non-current liabilities unless the put options can be exercised within 12 months after the end of the reporting period.

2.18 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the statements of profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

2.19 Employee benefits**(a) Pension and social obligations**

The Group companies operate various defined contribution plan in accordance with the local conditions and practices in which they operate. Defined contribution plans are pensions and the other social benefit plans under which the Group pay fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions are recognized as labor costs when they are due.

(b) Employee leave entitlements

Employee entitlements to annual leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognized until the time of leave.

(c) Bonus plans

The expected cost of bonuses is recognized as a liability when the Group has a present legal or constructive obligation for payment of bonus as a result of services rendered by employees and a reliable estimate of the obligation can be made. Liabilities for profit sharing and bonus plans are expected to be settled within 1 year and are measured at the amounts expected to be paid when they are settled.

2.20 Equity-settled share-based payments arrangements

Share-based payments arrangement represents the Group receives services from employees as consideration for equity instruments of the Group. The fair value of the employee services received in exchange for the grant of the equity instruments is recognized as an expense.

Share-based compensation benefits are provided to employees via employee incentive schemes. Under Scheme 2017 (defined in Note 24), capital interests granted by Ningbo Longren to employees vest immediately on grant date. On this date, the market value of the capital interests granted is recognised as an employee benefits expense with a corresponding increase in equity.

2.21 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

2.22 Revenue recognition

The Group evaluated and recognized revenue based on a five step approach:

- Identify the contract(s) with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to each performance obligation
- Recognize revenue when each performance obligation is satisfied

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for services provided, stated net of discounts, returns and value added taxes. Revenue is recognized when or as the control of the goods or services is transferred to the customer. Depending on the terms of the contract and the laws that apply to the contract, control of the goods and services may be transferred over time or at a point in time.

(a) Online game revenue

The Group is a mobile and PC game developer and also a publisher. The Group's online game revenue are generated primarily from its integrated game publishing and operation business, i.e. game publishing by the Group's own distribution channels or other distribution channels, and from its development and licensing business.

The Group's online games are operated under free-to-play model whereby game players can play the games free of charge and are charged for the purchase of in-game tokens, which entitle the game players to exchange for in-game virtual items, including those consumable and durable virtual items.

The Group reports revenue on a gross or net basis depending on whether the Group is acting as a principal or an agent in a transaction. The Group is a principal if it controls the specified product or service before that product or service is transferred to a customer or it has a right to direct others to provide the product or service to the customer on the Group's behalf. Indicators that the Group is a principal include but not limited to whether the Group (i) is the primary obligor in the arrangement; (ii) has latitude in establishing the selling price; (iii) has discretion in supplier selection; (iv) changes the product or performs part of the service, and (v) has involvement in the determination of product or service specifications.

The Group acts as an agent

(i) *Revenue from development and licensing*

The Group derives revenue from licensing its self-developed games to third-party game publishers ("Publishers"), who operate the Group's online games in defined regions or countries within a specific period. The licensing fees normally comprise of non-refundable fixed licensing fees (either up-front or under specific payment schedule) and variable licensing fees calculated based on prescribed terms.

The Group has evaluated the respective roles and responsibilities of the Group and the Publishers in the delivery of game experience to players and concluded that the Publishers have the primary responsibility in these licensing arrangements as they are responsible for marketing and promotion of the games in the market, hosting the game servers, determining the price of the in-game virtual items, selection of distribution and payment channels and providing customer services, and therefore have exposure to the significant risks and rewards associated with the operation of these games under the licensing arrangements. Accordingly, the variable licensing fees (revenue share), which are calculated based on a prescribed percentage of the proceeds received by the Publishers from players, are recognized as revenue on a net basis when the sales occur. The non-refundable fixed licensing fees are initially recorded in contract liability and are then recognized as revenue rateably over the license period as they are considered to be right-to-access arrangements.

The Group acts as a principal

(ii) *Revenue from integrated game publishing and operation*

The Group also operates its self-developed games through its own distribution channels, or other distribution channels, including various mobile application stores and software website (collectively referred to as "Distribution Channels"). The Group sells the in-game tokens to its game players via payment channels and Distribution Channels. Therefore, the payment channels and Distribution Channels are entitled to commissions which are withheld and deducted from the gross proceeds collected from the game players, with the net amounts remitted to the Group.

The Group takes primary responsibilities of game development and updates, price determination of in-game virtual items, game operation, including providing customer services, hosting game servers. The Group considered itself as a principal in this arrangement and records the online game revenue on a gross basis. Commissions paid to Distribution Channels and payment channels are recorded as cost of revenue.

Upon the sales of in-game virtual items, the Group typically has an implied obligation to provide the service which enables the in-game virtual items to be displayed and consumed in the respective games. As a result, the proceeds from the sales of in-game virtual items are initially recorded in contract liability and are then recognised as revenue subsequently only when the services have been rendered either upon consumption or ratably over the average playing period of Paying Players ("Player Relationship Period"). For the purposes of determining when services have been rendered to the respective Paying Players, the Group has determined the following:

- Consumable items represent in-game virtual items that can be consumed by game player actions or expire over a predetermined expiration time. The Group keeps track of the consumption or expiration of all the consumable items in the game. Revenue in relation to consumable items are recognized (as a release from contract liability) after they are consumed or over the period that they are expiring, as the Group's obligations in connection with such items have been fully rendered to the players after their consumption or expiration.
- Durable items represent in-game virtual items that are accessible by the players as long as they play the game. The Group will provide continuous services in connection with these durable items until these items are no longer used by the game players. Revenues in relation to the durable items are recognized over Player Relationship Period, which represents the best estimates of the average life of durable virtual items for the applicable game.

The Group estimates the Player Relationship Period and re-assesses such periods semi-annually. If there is insufficient data to determine the Player Relationship Period, such as in the case of a newly launched game, it estimates the Player Relationship Period based on other similar types of games developed by the Group until the new game establishes its own patterns and history. The Group also considers the games profile, target audience, and its appeal to players of different demographics groups in estimating the Player Relationship Period. Adjustments arising from changes in the estimated useful lives of durable virtual items are applied prospectively.

(b) *Revenue from online game technology support and upgrade services*

The Group acts as an agent

The Group provides technology support and upgrade services to other game developers, and earns services revenue from them based on a prescribed rate. The variable fees which are contingent upon future events (future cash paid by game players collected by other game developers) are recognized when the contingency is met provided that collectability is reasonably assured.

(c) *Contract liabilities and contract costs*

A contract liability is the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. The Group's contract liabilities mainly comprise of revenue share received in advance from customers, the unamortized revenue from sales of in-game virtual items for online games and the non-refundable fixed licensing fee paid by licensees, where there is still an implied obligation to be provided by the Group and will be recognized as revenue when all of the revenue recognition criteria are met.

Contract costs are mainly related to contract fulfilment costs, which primarily consist of unamortized commissions charged by the Distribution Channels. They are capitalized as contract fulfilment costs and amortized over their respective Player Relationship Periods, which is consistent with the pattern of recognition of the associated revenue.

2.23 Interest income

Interest income on financial assets at amortised cost calculated using the effective interest method is recognised in profit or loss. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

2.24 Research and development costs

The expenditure on an internal research and development project is classified into research cost and development cost based on its nature and whether there is material uncertainty that the research and development activities can form an intangible asset at end of the project.

Research cost is recognized in profit or loss in the period in which it is incurred. Development cost is capitalize only if all of the following conditions are satisfied:

- It is technically feasible to complete the intangible asset so that it will be available for use or sale;
- Management intends to complete the intangible asset, and use or sell it;
- There is ability to use or sell the intangible asset;
- It can be demonstrated how the intangible asset will generate economic benefits;
- There are adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- The expenditure attributable to the intangible asset during its development phase can be reliably measured.

The development cost of an internally generated intangible asset is the sum of the expenditure incurred from the date the asset meets the recognition criteria above to the date when it is available for use. The development costs capitalized in connection with the intangible asset include costs of materials and services used or consumed and employee costs incurred in the creation of the asset.

Capitalized development costs are amortized using the straight-line method over their estimated useful lives.

Development costs not satisfying the above criteria are recognized in the profit or loss as incurred.

Development costs previously recognized as expenses are not recognized as an asset in a subsequent period.

During the years ended December 31, 2017, 2018 and 2019, the Group did not capitalized any development costs.

2.25 Government Grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to costs are deferred and recognized in the profit or loss over the period necessary to match them with the costs that they are intended to compensate.

2.26 Leases

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable by the Group under residual value guarantees
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by Tianjin Loong, which does not have recent third party financing, and
- makes adjustments specific to the lease, e.g. term, country, currency and security.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases of properties are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

2.27 Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. Risk management is carried out by the senior management of the Group.

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally through overseas publishers and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US\$. Foreign exchange risk primarily arose from recognized assets and liabilities denominated in a currency other than the functional currency of the Group's subsidiaries. The Group does not hedge against any fluctuation in foreign currency during the Track Record Period.

The carrying amount in RMB equivalents of the financial assets held by the Group denominated in the currencies other than their respective functional currencies are summarised below:

	As at December 31,					
	2017		2018		2019	
	HK\$	US\$	HK\$	US\$	HK\$	US\$
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cash	2,958	278,033	3,718	252,932	59,002	160,960
Trade receivables . .	804	46,392	1,538	10,838	5,107	11,962
Term deposits	—	229,285	—	—	—	142,314
	<u>3,762</u>	<u>553,710</u>	<u>5,256</u>	<u>263,770</u>	<u>64,109</u>	<u>315,236</u>

If foreign currencies had strengthened/weakened by 5% against RMB with all other variables held constant, the (loss)/profit for the year would have been approximately RMB23,632,000 lower/higher, RMB11,430,000 lower/higher and RMB16,074,000 higher/lower for the years ended December 31, 2017, 2018 and 2019, respectively, as a result of net foreign exchange gains/losses on translation of net monetary assets denominated in currencies other than RMB.

(ii) *Price risk*

The Group is exposed to price risk in respect of investments held by the Group that are classified on the combined balance sheet at fair value through profit or loss. The Group is not exposed to commodity price risk. To manage its price risk arising from the investments, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Group.

The sensitivity analysis is determined based on the exposure to price risk of financial assets at fair value through profit or loss at the end of the reporting period. If the fair values of the respective instruments held by the Group had been 1% higher/lower, the (loss)/profit for the years ended December 31, 2017, 2018 and 2019 would have been approximately RMB6,637,000 lower/higher, RMB5,312,000 lower/higher, and RMB3,310,000 higher/lower, respectively.

(iii) *Cash flow and fair value interest rate risk*

As the Group has no significant interest-bearing assets and liabilities other than cash and cash equivalents and term deposits, the Group's income and cash flows are substantially independent of changes in market interest rates.

(b) *Credit risk*

Credit risk arises from cash and cash equivalents and term deposits placed with banks, trade receivables and other receivables. The carrying amount of each class of the above financial assets represents the Group's maximum exposure to credit risk in relation to the corresponding class of financial assets.

(i) *Risk management*

Credit risk is managed on group basis. Finance team is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. The Group assesses the credit quality of its customers and other debtors by taking into account various factors including their financial position, past experience and other factors.

Cash and cash equivalents and term deposits are mainly placed with state-owned financial institutions in the PRC and reputable international financial institutions outside of the PRC. There has been no recent history of default in relation to these financial institutions. The expected credit loss is close to zero.

The Group is also exposed to credit risk in relation to debt investments that are measured at fair value through profit or loss. The maximum exposure at the end of the reporting period is the carrying amount of these investments.

(ii) *Impairment of financial assets*Trade receivables

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and credit rating.

The expected loss rates are based on the historical payment profiles, historical loss rates and data published by external credit rating institution, adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the GDP of the countries in which it provides its services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

On that basis, the loss allowances as at December 31, 2017, 2018 and 2019 were determined as follows:

	<u>As at December 31,</u>		
	<u>2017</u>	<u>2018</u>	<u>2019</u>
Gross carrying amount (RMB'000) (Note 18)	297,545	283,810	553,112
Expected credit loss rate	1.16%	1.09%	1.33%
Allowance for impairment of trade receivables (RMB'000)	<u>(3,437)</u>	<u>(3,088)</u>	<u>(7,337)</u>

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and indicators of severe financial difficulty.

Impairment losses on trade receivables are presented as “administrative expenses” within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

Other receivables

Impairment on other receivables is measured as either 12-month expected credit losses or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit loss. Management makes periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experience. In view of the history of cooperation with debtors, the sound collection history of receivables due from them and forward-looking estimates, the expected credit loss is minimal.

(c) *Liquidity risk*

The Group aims to maintain sufficient cash and cash equivalents. Due to the dynamic nature of the underlying businesses, the Group's finance department maintains flexibility in funding by maintaining adequate cash and cash equivalents.

The table below analyzes the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Group					
At December 31, 2017					
Trade and other payables (excluding payroll liabilities and tax payables) (Note 28) . . .	168,172	—	—	—	168,172
Lease liabilities	<u>7,706</u>	<u>295</u>	<u>74</u>	<u>—</u>	<u>8,075</u>
	<u>175,878</u>	<u>295</u>	<u>74</u>	<u>—</u>	<u>176,247</u>
At December 31, 2018					
Trade and other payables (excluding payroll liabilities and tax payables) (Note 28) . . .	107,956	—	—	—	107,956
Lease liabilities	23,623	10,433	53	—	34,109
Other non-current liabilities	<u>—</u>	<u>—</u>	<u>207,480</u>	<u>—</u>	<u>207,480</u>
	<u>131,579</u>	<u>10,433</u>	<u>207,533</u>	<u>—</u>	<u>349,545</u>
At December 31, 2019					
Trade and other payables (excluding payroll liabilities and tax payables) (Note 28) . . .	95,753	—	—	—	95,753
Lease liabilities	15,950	5,570	16,797	2,841	41,158
Other non-current liabilities	<u>—</u>	<u>—</u>	<u>207,480</u>	<u>—</u>	<u>207,480</u>
	<u>111,703</u>	<u>5,570</u>	<u>224,277</u>	<u>2,841</u>	<u>344,391</u>

As of December 31, 2017, 2018 and 2019, the maximum exposure from the redemption of Preferred Shares is the contractual redemption price, as described in Note 25.

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for owners and benefits for other owners and to maintain an optimal capital structure to reduce the cost of capital.

The Group monitors capital by regularly reviewing the capital structure. As a part of this review, the directors of the Company considers the cost of capital and the risks associated with the issued share capital. The Group may adjust the amount of dividends paid to owners, return capital to owners, issue new shares or repurchase the Company's shares. In the opinion of the directors of the Company, the Group's capital risk is low.

3.3 Fair value estimation

The table below analyzes the Group's financial instruments carried at fair value as at December 31, 2017, 2018 and 2019 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorized into three levels within a fair value hierarchy as follows:

- Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and equity securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the group is the current bid price. These instruments are included in level 1.
- Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.
- Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

As at December 31, 2017, 2018 and 2019, none of the Group's financial liabilities and financial assets are measured at fair value using level 1 or level 2 inputs.

The following table presents the Group's financial assets and financial liabilities that are measured at fair value using level 3 inputs.

	As at December 31,		
	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Assets			
— Financial assets at fair value through profit or loss (<i>Note 20</i>)	<u>663,749</u>	<u>531,197</u>	<u>330,968</u>
Liabilities			
— Convertible redeemable preferred shares (<i>Note 25</i>)	<u>915,505</u>	<u>1,043,738</u>	<u>1,259,648</u>

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for financial instruments.

The changes in level 3 instruments of financial assets at fair value through profit or loss and convertible redeemable preferred shares for the years ended December 31, 2017, 2018 and 2019 have been disclosed in Note 20 and Note 25. There is no transfer from level 1 and level 2 instruments to level 3 for the years ended December 31, 2017, 2018 and 2019.

The components of the level 3 instruments include investments in bank wealth management products and Preferred Shares. As these instruments are not traded in an active market, their fair values have been determined using applicable methodologies. The following table summarizes the quantitative about the significant unobservable inputs used in level 3 fair value measurement of the investments in bank wealth management products.

	Valuation technique	Significant unobservable inputs	Percent or ratio range			Sensitive of fair value to the input
			As at December 31,			
			2017	2018	2019	
Wealth management products	Discounted cash flow model	Expected rate of return	3.90% to 6.30%	3.25% to 4.15%	2.78% to 3.90%	Increasing/decreasing expected rate of return by 50 basis points would increase/decrease fair value by RMB661,972, RMB188,278, and RMB392,431 as at December 31, 2017, 2018 and 2019.

Major assumptions used in the valuation for Preferred Shares are presented in Note 25. Fair value of Preferred Shares is affected by changes in Tianjin Loong's equity value. If the Tianjin Loong's equity value had increased/decreased by 10% with all other variables held constant, the loss for the years ended December 31, 2017, 2018 and 2019 would have been approximately RMB83,761,000 higher and RMB83,578,000 lower, RMB97,789,000 higher and RMB97,450,000 lower, RMB121,649,000 higher and RMB121,157,000 lower, respectively.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Estimates of Player Relationship Period in the Group's self-operated online game revenue

As described in Note 2.22, the Group recognizes certain revenue from sale of virtual items in online game services ratably over the Player Relationship Period. The determination of Player Relationship Period in each game is made based on the Group's best estimate that takes into account all known and relevant information at the time of assessment. Such estimates are subject to re-evaluation on a semi-annual basis. Any adjustments arising from changes in the Player Relationship Period as a result of new information will be accounted for as a change in accounting estimate.

(b) Revenue recognition

Pursuant to online game licensing and operation arrangements signed between the Group and the third-party game publishers or Distribution Channels, the Group's responsibilities in game development and self-developed games operation vary for each game. The Group recognizes revenue on a gross or net basis depending on whether the Group is acting as a principal or an agent in a transaction. Indicators that the Group is a principal include but not limited to whether the Group (i) is the primary obligor in the arrangement; (ii) has latitude in establishing the selling price; (iii) has discretion in supplier selection; (iv) changes the product or performs part of the service, and (v) has involvement in the determination of product or service specifications.

(c) Fair value of convertible redeemable preferred shares

The convertible redeemable preferred shares issued by Tianjin Loong are not traded in an active market and the respective fair value is determined by using valuation techniques. The Group applied the discounted cash flow method to determine the underlying equity value of Tianjin Loong and adopted option-pricing method and equity allocation model to determine the fair value of the convertible redeemable preferred shares. Key assumptions such as the timing of the deemed liquidation, redemption or IPO event as well as the probability of the various scenarios were based on the Group's best estimates. (Note 25)

(d) Recognition of share-based compensation expenses

The Group granted certain capital interests of Tianjin Loong to eligible employees under a employee incentive scheme. The fair value of the capital interests at the grant date are determined by using valuation techniques. The Group applied the discounted cash flow method and significant estimates on assumptions, including underlying equity value, risk-free interest rate, expected volatility, and dividend yield, were made by the directors and third-party valuer. (Note 24)

(e) Impairment provision for trade and other receivables

The allowance for impairment of trade and other are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. Details of the key assumptions and inputs used are disclosed in Note 3.1(b).

(f) Income tax

The Group is subject to income taxes in the PRC and other jurisdictions. Judgment is required in determining the provision for income taxes in each of these jurisdictions. There are transactions and calculations during the ordinary course of business for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax provisions in the period in which such determination is made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognized when management considers it is probable that future taxable profits will be available against which the temporary differences or tax losses can be utilized. When the expectation is different from the original estimate, such differences will impact the recognition of deferred income tax assets and taxation charges in the period in which such estimate is changed.

5 SEGMENT INFORMATION AND REVENUE

The Group's business activities, for which discrete financial statements are available, are regularly reviewed and evaluated by the chief operating decision maker. As a result of this evaluation, the directors of the Company consider that the Group's operations are operated and managed as a single segment and no segment information is presented, accordingly.

As at December 31, 2017, 2018 and 2019, substantially all of the non-current assets of the Group were located in the PRC.

Revenue for the years ended December 31, 2017, 2018 and 2019 are as follows. As disclosed in Note 2.22, the Group considered itself as an agent in arrangements of "development and licensing business" and "other business", and recorded revenue on a net basis; whereas, the Group considered itself as a principal in arrangements of "integrated game publishing and operation business", and recorded revenue on a gross basis.

	Year ended December 31,		
	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Online game revenue			
— Development and licensing			
<i>Revenue share</i>	859,440	537,258	739,810
<i>Non-refundable fixed licensing fees</i>	51,816	64,175	81,739
— Integrated game publishing and operation	383,460	265,683	245,685
Others (<i>Note (a)</i>)	<u>14,491</u>	<u>2,951</u>	<u>12</u>
	<u>1,309,207</u>	<u>870,067</u>	<u>1,067,246</u>
Online game revenue			
— Mobile Game	1,279,238	864,667	1,066,936
— PC Game	15,478	2,449	298
Others (<i>Note (a)</i>)	<u>14,491</u>	<u>2,951</u>	<u>12</u>
	<u>1,309,207</u>	<u>870,067</u>	<u>1,067,246</u>
Timing of revenue recognition			
— At a point in time	873,931	547,144	763,208
— Over time	<u>435,276</u>	<u>322,923</u>	<u>304,038</u>
	<u>1,309,207</u>	<u>870,067</u>	<u>1,067,246</u>

Note:

(a) Others represent online game technology support and upgrade services we provided to other game developers.

Revenues of approximately RMB858,101,000, RMB572,079,000 and RMB809,971,000 for the years ended December 31, 2017, 2018 and 2019, respectively were derived from five largest single external customers.

During the year ended December 31, 2017, revenues of approximately RMB518,495,000, and RMB167,669,000 were derived from respective single external customers each accounted for more than 10% of total revenue.

During the year ended December 31, 2018, revenue of approximately RMB354,713,000 was derived from a single external customer accounted for more than 10% of the total revenue.

During the year ended December 31, 2019, revenue of approximately RMB586,487,000 was derived from a single external customer accounted for more than 10% of the total revenue.

The amount of its revenue from external customers broken down by location of the customers is shown in the table below.

	Year ended December 31,		
	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue segment by geography			
Domestic	1,076,203	678,932	723,070
Overseas	<u>233,004</u>	<u>191,135</u>	<u>344,176</u>
	<u>1,309,207</u>	<u>870,067</u>	<u>1,067,246</u>

The Group has recognized the following assets and liabilities related to contracts with customers:

	As at December 31,		
	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Contract costs			
Current			
Costs to fulfil contracts for online game revenue	<u>12,472</u>	<u>11,703</u>	<u>13,406</u>
Contract liabilities			
Current			
Unamortised revenue from sales of in-game virtual items	30,818	26,710	34,279
Revenue share received in advance	6,470	4,813	2,575
Unamortised balance of the non-refundable fixed licensing fees	<u>43,724</u>	<u>35,342</u>	<u>25,521</u>
	<u>81,012</u>	<u>66,865</u>	<u>62,375</u>
Non-Current			
Unamortised balance of the non-refundable fixed licensing fees	<u>25,934</u>	<u>13,667</u>	<u>10,171</u>
	<u>106,946</u>	<u>80,532</u>	<u>72,546</u>

Contract costs are mainly related to contract fulfilment costs, which primarily consist of unamortized commissions charged by the Distribution Channels. They are capitalized as contract fulfilment costs and amortized over their respective Player Relationship Periods, which is consistent with the pattern of recognition of the associated revenue.

Contract liabilities primarily represented the unamortized revenue from sales of in-game virtual items in the Group's online game services, the non-refundable fixed licensing fees and revenue share received in advance from customers, which the Group continued to have obligations as at the reporting date.

Revenue recognised in relation to contract liabilities

The following table shows how much of the revenue recognised in the current reporting period relates to carried-forward contract liabilities:

	Year ended December 31,		
	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<i>Revenue recognised that was included in the contract liability balance at the beginning of the year</i>			
Unamortised revenue from sales of in-game virtual items	154	30,818	26,710
Revenue share received in advance	19,428	5,075	4,813
Unamortised balance of the non-refundable fixed licensing fees	41,879	43,724	35,342
	<u>61,461</u>	<u>79,617</u>	<u>66,865</u>

Unsatisfied long-term online game licensing contracts

The following table shows unsatisfied performance obligations resulting from the transaction price allocated to long-term online game licensing arrangement.

	As at December 31,		
	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Aggregate amount of the transaction price allocated to long-term online game licensing arrangements that are partially or fully unsatisfied as at year end	<u>69,658</u>	<u>49,009</u>	<u>35,692</u>

Management expects that RMB43,724,000, RMB21,465,000, RMB4,469,000 of the transaction price allocated to the unsatisfied contracts as at December 31, 2017 will be recognised as revenue in 2018, 2019 and 2020 financial year.

Management expects that RMB35,342,000, RMB10,066,000, RMB3,601,000 of the transaction price allocated to the unsatisfied contracts as of 31 December 2018 will be recognised as revenue in 2019, 2020 and 2021 financial year.

Management expects that RMB25,521,000 and RMB10,171,000 of the transaction price allocated to the unsatisfied contracts as of 31 December 2019 will be recognised as revenue in 2020 and 2021 financial year.

The amount disclosed above does not include variable consideration which is constrained.

All other online game licensing arrangements are for periods of one year or less or are billed based on time incurred. As permitted under IFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

6 OTHER INCOME

	Year ended December 31,		
	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Government grants	<u>35,578</u>	<u>16,979</u>	<u>14,099</u>

Government grants received by certain subsidiaries were mainly related to their local development. Those grants are not stipulated with any specified uses, nor unfulfilled conditions or contingencies.

7 OTHER (LOSSES)/GAINS, NET

	Year ended December 31,		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Gains on financial assets at fair value through profit or loss	24,954	31,736	26,639
Foreign exchange (losses)/gains, net	(29,872)	30,875	7,453
Donation	(20)	(20)	(10,029)
Others	163	(4,879)	(8)
	<u>(4,775)</u>	<u>57,712</u>	<u>24,055</u>

8 EXPENSES BY NATURE

	Year ended December 31,		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Employee benefit expense (Note 9)	503,282	299,800	359,017
Promotion and advertising expenses	206,490	67,850	92,763
Commissions charged by Distribution Channels and payment channels	163,068	118,489	83,781
Revenue share to IP holders	89,434	36,038	70,147
Outsourced technical services	37,147	35,936	39,984
Depreciation and amortization charges (Note 14, 15, 16)	24,411	29,949	41,092
VAT input transfer out and tax surcharges	11,322	4,601	5,930
Utilities and office expenses	8,442	10,328	9,938
Bandwidth and servers custody fee	4,206	5,829	7,649
Travelling expenses	3,773	14,102	6,321
Provision for impairment of trade receivables	(667)	(349)	4,249
Auditors' remuneration	156	236	71
Listing expenses	—	—	4,907
Other professional consulting fees	3,705	5,922	5,105
Others	4,195	5,076	7,594
	<u>1,058,964</u>	<u>633,807</u>	<u>738,548</u>

9 EMPLOYEE BENEFIT EXPENSE

	Year ended December 31,		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Wages, salaries and bonuses	248,134	225,864	281,499
Other social security costs, housing benefits and other employee benefits	26,770	33,615	34,928
Pension costs — defined contribution plans	29,378	40,321	42,590
Share-based compensation (Note 24)	199,000	—	—
	<u>503,282</u>	<u>299,800</u>	<u>359,017</u>

(a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for each of the years ended December 31, 2017, 2018 and 2019 include 0, 2 and 1 directors whose emoluments are reflected in analysis shown in not (b) below. The emoluments payable to the remaining 5, 3 and 4 individuals for each of the years ended December 31, 2017, 2018 and 2019 are as follows:

	Year ended December 31,		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Basic salaries	4,205	3,784	4,528
Bonuses	8,100	650	5,398
Other social security costs and housing benefits	359	243	340
Pension costs — defined contribution plans	285	195	230
Share-based compensation	151,240	—	—
	<u>164,189</u>	<u>4,872</u>	<u>10,496</u>

The emoluments fell within the following bands:

	Number of individuals		
	Year ended December 31,		
	2017	2018	2019
Emolument bands (in HK\$)			
HK\$1,500,001–HK\$2,000,000	—	1	—
HK\$2,000,001–HK\$2,500,000	—	2	—
HK\$2,500,001–HK\$3,000,000	—	—	2
HK\$3,000,001 –HK\$3,500,000	—	—	2
HK\$29,500,001–HK\$30,000,000	2	—	—
HK\$30,500,001–HK\$31,000,000	1	—	—
HK\$48,500,001–HK\$49,000,000	1	—	—
HK\$50,500,001–HK\$60,000,000	1	—	—
	<u>5</u>	<u>3</u>	<u>4</u>

(b) Benefits and interests of directors

The remuneration of each director for the year ended December 31, 2017 is set out as below:

Name	Fee	Salary	Bonuses	Share-based compensation	Pension costs — defined contribution cost	Other social security costs and housing benefits and other employee benefits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<i>Executive directors</i>							
Li Qing	—	1,912	11,332	—	51	63	13,358
Bai Wei	—	1,278	2,400	—	61	77	3,816
	<u>—</u>	<u>3,190</u>	<u>13,732</u>	<u>—</u>	<u>112</u>	<u>140</u>	<u>17,174</u>

The remuneration of each director for the year ended December 31, 2018 is set out as below:

Name	Fee	Salary	Bonuses	Share-based compensation	Pension costs — defined contribution cost	Other social security costs and housing benefits and other employee benefits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<i>Executive directors</i>							
Li Qing	—	1,987	—	—	55	69	2,111
Bai Wei	—	1,327	250	—	66	83	1,726
	—	3,314	250	—	121	152	3,837

The remuneration of each director for the year ended December 31, 2019 is set out as below:

Name	Fee	Salary	Bonuses	Share-based compensation	Pension costs — defined contribution cost	Other social security costs and housing benefits and other employee benefits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<i>Executive directors</i>							
Li Qing	—	2,232	173	—	50	76	2,531
Bai Wei	—	1,360	92	—	60	88	1,600
	—	3,592	265	—	110	164	4,131

Mr. Li Qing and Mr. Bai Wei were appointed as the Company's executive directors on January 20, 2020 and March 4, 2020, respectively. Ms. Liu Ming and Mr. Yan Xinguang were appointed as the Company's non-executive directors on March 4, 2020. Mr. Ge Xuan, Mr. Zhu Lin and Mr. Ding Zhiping were appointed as the Company's independent non-executive directors on June 24, 2020. During the Track Record Period, the non-executive directors and independent non-executive directors have not yet been appointed and did not receive any directors' remuneration in the capacity of non-executive directors or independent non-executive directors.

The remuneration shown above represents remuneration received from the Group by these directors in their capacity as employees to the companies comprising the Group.

No directors waived any emolument during the Track Record Period.

No director fee were paid to these directors in their capacity as directors of the Company or the companies comprising the Group.

No emoluments were paid by the Company or the companies comprising the Group as an inducement to join the Company or the companies comprising the Group, or as compensation for loss of office during the Track Record Period.

None of the directors received or will receive any retirement benefits or termination benefits during the Track Record Period.

The Company did not pay consideration to any third parties for making available directors' services during the Track Record Period,

There is no loans, quasi-loans and other dealing arrangement in favour of directors, or controlled body corporates and connected entities of such directors during the Track Record Period.

Save as elsewhere disclosed in the notes to the Historical Financial Information, there is no significant transactions, arrangements and contracts in relation to the Group's business in which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly subsisted at the end of the year or at any time during the Track Record Period.

10 FINANCE INCOME/(COSTS), NET

	Year ended December 31,		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Finance income			
Interest income	7,683	12,628	8,605
Finance costs			
Interest expenses accrued from redemption liability (Note 26)	—	(4,996)	(16,727)
Other interest expenses	(947)	(667)	(1,097)
Others	(66)	(90)	(104)
	<u>(1,013)</u>	<u>(5,753)</u>	<u>(17,928)</u>
Finance income/(costs), net	<u>6,670</u>	<u>6,875</u>	<u>(9,323)</u>

11 INCOME TAX EXPENSE

The income tax expense of the Group for the years ended December 31, 2017, 2018 and 2019 is analyzed as follows:

	Year ended December 31,		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Current income tax	44,252	11,990	25,196
Deferred tax (Note 27)	19,268	(114)	(487)
	<u>63,520</u>	<u>11,876</u>	<u>24,709</u>

(a) Cayman Islands and BVI Income Tax

The Company is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands and accordingly, is exempted from Cayman Islands income tax. The Group entities established under the Business Companies Act (as amended) of BVI are exempted from BVI income taxes.

(b) Hong Kong Income Tax

The entity incorporated in Hong Kong is subject to Hong Kong profit tax at a rate of 16.5% on the accessible profits for the years ended 2017, 2018 and 2019, based on the existing legislation, interpretations and practices in respect thereof.

(c) PRC Enterprise Income Tax ("EIT")

The income tax provision of the Group in respect of its operations in PRC was calculated at the tax rate of 25% on the assessable profits during the Track Record Period, based on the existing legislation, interpretations and practices in respect thereof.

Tianjin Loong qualified as "High and New Technology Enterprises" ("HNTEs") for three years under the EIT Law since 2017. Therefore, Tianjin Loong was entitled to a preferential income tax rate of 15% on their estimated assessable profits for the years ended December 31, 2017, 2018 and 2019.

Huai'an Loong qualified as "High and New Technology Enterprises" ("HNTEs") for three years under the EIT Law since 2018. Therefore, Huai'an Loong was entitled to a preferential income tax rate of 15% on their estimated assessable profits for the years ended December 31, 2018 and 2019. Before that, Huai'an Loong had no preferential income tax rate applied.

Horgos Loong was incorporated in a special economic development zone under relevant PRC laws and regulations in 2017 and is entitled to a tax concession of exemption from EIT, which was deregistered on April 1, 2020.

The tax on the Group's (loss)/profit before tax differs from the theoretical amount that would arise using the PRC statutory income tax rate as follows:

	Year ended December 31,		
	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
(Loss)/profit before income tax	<u>(95,847)</u>	<u>(63,505)</u>	<u>145,074</u>
Tax calculated at PRC statutory income tax rate of 25%	(23,962)	(15,876)	36,269
Tax effects of:			
Effects of preferential income tax benefits of certain subsidiaries	22,012	15,510	(6,911)
Effects of different tax rates applicable to different subsidiaries of the Group	(989)	(8,079)	(6,353)
Tax losses for which no deferred income tax asset was recognized	253	1,394	1,287
Additional deduction for research and development expenses	(27,730)	(29,972)	(26,761)
Expenses not deductible for tax purposes (<i>Note (a)</i>)	87,441	57,339	33,709
Utilisation of tax losses for which no deferred income tax asset was recognized	(3,836)	(530)	(1,592)
Foreign-sourced income not subject to Hong Kong profit tax	—	(12,938)	(6,327)
Re-measurement of deferred tax due to change in the applicable tax rate	4,399	—	—
Others	<u>5,932</u>	<u>5,028</u>	<u>1,388</u>
Income tax expense	<u><u>63,520</u></u>	<u><u>11,876</u></u>	<u><u>24,709</u></u>

Note:

- (a) Expenses not deductible for tax purposes mainly include non-deductible fair value changes on convertible redeemable preferred shares, share-based compensation expense and other expenses that exceed the deduction limitation.

12 (LOSS)/EARNINGS PER SHARE

(Loss)/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 presentation of the results for the Track Record Period on a combined basis as disclosed in Note 1.3 above.

13 DIVIDENDS

No dividend has been paid or declared by the Company since its incorporation.

	Year ended December 31,		
	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Dividends declared and paid by Tianjin Loong to its then holding company . . .	<u>140,000</u>	<u>227,500</u>	<u>—</u>

Note:

- (a) The rates for dividend and the number of shares ranking for dividends are not presented as such information is not considered meaningful for the purpose of this report.

14 PROPERTY, PLANT AND EQUIPMENT

	Office equipment	Furniture	Leasehold improvements	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At January 1, 2017				
Cost	6,652	186	4,008	10,846
Accumulated depreciation	<u>(1,346)</u>	<u>(41)</u>	<u>(1,216)</u>	<u>(2,603)</u>
Net book amount	<u>5,306</u>	<u>145</u>	<u>2,792</u>	<u>8,243</u>
Year ended December 31, 2017				
Opening net book amount	5,306	145	2,792	8,243
Additions	3,123	101	1,052	4,276
Depreciation charge	<u>(1,892)</u>	<u>(52)</u>	<u>(1,584)</u>	<u>(3,528)</u>
Closing net book amount	<u>6,537</u>	<u>194</u>	<u>2,260</u>	<u>8,991</u>
At December 31, 2017				
Cost	9,775	287	5,060	15,122
Accumulated depreciation	<u>(3,238)</u>	<u>(93)</u>	<u>(2,800)</u>	<u>(6,131)</u>
Net book amount	<u>6,537</u>	<u>194</u>	<u>2,260</u>	<u>8,991</u>

	Office equipment	Furniture	Leasehold improvements	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Year ended December 31, 2018				
Opening net book amount	6,537	194	2,260	8,991
Additions	2,777	32	2,361	5,170
Disposals	—	—	—	—
Depreciation charge	<u>(2,642)</u>	<u>(72)</u>	<u>(1,781)</u>	<u>(4,495)</u>
Closing net book amount	<u>6,672</u>	<u>154</u>	<u>2,840</u>	<u>9,666</u>
At December 31, 2018				
Cost	12,552	319	7,421	20,292
Accumulated depreciation	<u>(5,880)</u>	<u>(165)</u>	<u>(4,581)</u>	<u>(10,626)</u>
Net book amount	<u>6,672</u>	<u>154</u>	<u>2,840</u>	<u>9,666</u>
Year ended December 31, 2019				
Opening net book amount	6,672	154	2,840	9,666
Additions	3,882	66	831	4,779
Disposals	(30)	—	—	(30)
Depreciation charge	<u>(3,243)</u>	<u>(79)</u>	<u>(2,385)</u>	<u>(5,707)</u>
Closing net book amount	<u>7,281</u>	<u>141</u>	<u>1,286</u>	<u>8,708</u>
At December 31, 2019				
Cost	16,404	385	8,252	25,041
Accumulated depreciation	<u>(9,123)</u>	<u>(244)</u>	<u>(6,966)</u>	<u>(16,333)</u>
Net book amount	<u>7,281</u>	<u>141</u>	<u>1,286</u>	<u>8,708</u>

Depreciation expenses have been charged to the combined statements of profit or loss as follows:

	Year ended December 31,		
	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cost of revenue	89	192	220
Research and development expenses	2,868	3,724	4,734
Selling and marketing expenses	245	233	154
Administrative expenses	<u>326</u>	<u>346</u>	<u>599</u>
	<u>3,528</u>	<u>4,495</u>	<u>5,707</u>

15 INTANGIBLE ASSETS

	Software	Copyrights and game licenses	Trademark and domain names	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At January 1, 2017				
Cost	3,058	10,251	274	13,583
Accumulated amortisation	<u>(773)</u>	<u>(731)</u>	<u>(45)</u>	<u>(1,549)</u>
Net book amount	<u>2,285</u>	<u>9,520</u>	<u>229</u>	<u>12,034</u>
Year ended December 31, 2017				
Opening net book amount	2,285	9,520	229	12,034
Additions	8,394	19,044	—	27,438
Amortisation charge	<u>(1,199)</u>	<u>(3,588)</u>	<u>(35)</u>	<u>(4,822)</u>
Closing net book amount	<u>9,480</u>	<u>24,976</u>	<u>194</u>	<u>34,650</u>
At December 31, 2017				
Cost	11,452	29,295	274	41,021
Accumulated amortisation	<u>(1,972)</u>	<u>(4,319)</u>	<u>(80)</u>	<u>(6,371)</u>
Net book amount	<u>9,480</u>	<u>24,976</u>	<u>194</u>	<u>34,650</u>
Year ended December 31, 2018				
Opening net book amount	9,480	24,976	194	34,650
Additions	2,160	4,717	—	6,877
Amortisation charge	<u>(3,017)</u>	<u>(4,836)</u>	<u>(35)</u>	<u>(7,888)</u>
Closing net book amount	<u>8,623</u>	<u>24,857</u>	<u>159</u>	<u>33,639</u>
At December 31, 2018				
Cost	13,612	34,012	274	47,898
Accumulated amortisation	<u>(4,989)</u>	<u>(9,155)</u>	<u>(115)</u>	<u>(14,259)</u>
Net book amount	<u>8,623</u>	<u>24,857</u>	<u>159</u>	<u>33,639</u>
Year ended December 31, 2019				
Opening net book amount	8,623	24,857	159	33,639
Additions	15,441	6,687	—	22,128
Amortisation charge	<u>(5,147)</u>	<u>(6,552)</u>	<u>(35)</u>	<u>(11,734)</u>
Closing net book amount	<u>18,917</u>	<u>24,992</u>	<u>124</u>	<u>44,033</u>
At December 31, 2019				
Cost	29,053	40,699	274	70,026
Accumulated amortisation	<u>(10,136)</u>	<u>(15,707)</u>	<u>(150)</u>	<u>(25,993)</u>
Net book amount	<u>18,917</u>	<u>24,992</u>	<u>124</u>	<u>44,033</u>

Amortization charges were expensed in the following categories in the combined statements of profit or loss:

	Year ended December 31,		
	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cost of revenue	3,162	4,735	6,451
Research and development expenses	1,171	2,048	3,565
Administrative expenses	489	1,105	1,718
	<u>4,822</u>	<u>7,888</u>	<u>11,734</u>

16 LEASES

(a) Amounts recognised in the combined balance sheets

	As at December 31,		
	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Right-of-use assets			
Properties	10,008	36,494	41,527
Vehicles	3,967	2,203	441
	<u>13,975</u>	<u>38,697</u>	<u>41,968</u>

	As at December 31,		
	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Lease liabilities			
Current	7,567	22,527	14,620
Non-current	358	10,341	22,643
	<u>7,925</u>	<u>32,868</u>	<u>37,263</u>

Additions to the right-of-use assets during the years ended December 31, 2017 and 2018 and 2019 were RMB5,729,000, RMB42,288,000, RMB26,922,000.

(b) Amounts recognised in the combined statements of profit or loss

The statements of profit or loss show the following amounts relating to leases:

	Year ended December 31,		
	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Depreciation charge of right-of-use assets			
Properties	14,298	15,803	21,888
Vehicles	1,763	1,763	1,763
	<u>16,061</u>	<u>17,566</u>	<u>23,651</u>

	Year ended December 31,		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Interest expenses (included in finance cost)	867	667	1,097
Expense relating to short-term leases (included in cost of revenue, research and development expenses, selling and marketing expenses and administrative expenses)	442	2,697	546
	<u>1,309</u>	<u>3,364</u>	<u>1,643</u>

The total cash outflow for leases in the years ended December 31, 2017, 2018, 2019 was RMB23,647,000, RMB20,742,000, RMB23,787,000.

(c) **The Group's leasing activities and how these are accounted for**

The Group leases various offices and vehicles. Rental contracts are typically made for fixed periods of 6 months to 5 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

(d) **Extension options**

Extension options are included in a number of property leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The extension options held are exercisable only by the Group and not by the respective lessor.

17 FINANCIAL INSTRUMENTS BY CATEGORY

	As at December 31,		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Assets as per balance sheet			
Financial assets at fair value through profit or loss (<i>Note 20</i>)	663,749	531,197	330,968
Financial assets at amortised cost			
— Trade receivables (<i>Note 18</i>)	294,108	280,722	545,775
— Deposits and other receivables	11,946	12,352	13,483
— Term deposits (<i>Note 21(b)</i>)	229,285	—	142,663
— Cash and cash equivalents (<i>Note 21(a)</i>)	383,609	588,391	728,318
	<u>1,582,697</u>	<u>1,412,662</u>	<u>1,761,207</u>
Liabilities as per balance sheet			
Financial liabilities at fair value through profit or loss			
— Convertible redeemable preferred shares (<i>Note 25</i>)	915,505	1,043,738	1,259,648
Financial liabilities at amortized cost			
— Trade and other payables (excluding payroll liabilities and tax payables) (<i>Note 28</i>)	168,172	107,956	95,753
— Other non-current liabilities (<i>Note 26</i>)	—	157,468	174,195
Lease liabilities (<i>Note 16</i>)	7,925	32,868	37,263
	<u>1,091,602</u>	<u>1,342,030</u>	<u>1,566,859</u>

18 TRADE RECEIVABLES

	As at December 31,		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Trade receivables	297,545	283,810	553,112
Less: allowance for impairment of trade receivables	(3,437)	(3,088)	(7,337)
Trade receivables — net	<u>294,108</u>	<u>280,722</u>	<u>545,775</u>

The following table sets forth the gross carrying amount of trade receivables by customer types:

	As at December 31,		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Related parties (Note 31(c))	135,985	178,052	424,168
Third parties	<u>161,560</u>	<u>105,758</u>	<u>128,944</u>
	<u>297,545</u>	<u>283,810</u>	<u>553,112</u>

The gross carrying amount of the Group's trade receivables is dominated in the following currencies:

	As at December 31,		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
RMB	231,004	218,491	473,782
US\$	65,737	63,781	74,223
HK\$	<u>804</u>	<u>1,538</u>	<u>5,107</u>
	<u>297,545</u>	<u>283,810</u>	<u>553,112</u>

The Group allows a credit period of 90–150 days to its customers. An aging analysis of trade receivables based on revenue recognition date is as follows:

	As at December 31,		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Up to 3 months	208,676	192,155	230,963
3 to 6 months	62,304	58,503	282,397
6 months to 1 year	9,801	33,152	39,463
Over 1 year	<u>16,764</u>	<u>—</u>	<u>289</u>
	<u>297,545</u>	<u>283,810</u>	<u>553,112</u>

Movements on the Group's provision for impairment of trade receivables are as follows:

	As at December 31,		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
At beginning of the year	(4,104)	(3,437)	(3,088)
Provision for impairment	(234)	(1,018)	(4,249)
Reversal of impairment	901	1,367	—
At end of the year	<u>(3,437)</u>	<u>(3,088)</u>	<u>(7,337)</u>

The creation and release of provision for impaired receivables have been included in "administrative expenses" in the combined statements of profit or loss.

The maximum exposure to credit risk at the reporting date is the carrying value of trade receivables. The Group does not hold any collateral as security.

19 PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	As at December 31,		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Included in non-current assets			
Prepaid revenue share to IP holders (<i>Note (a)</i>)	18,868	18,868	18,868
Rental deposits	—	6,068	—
Others	1,505	1,111	1,393
	<u>20,373</u>	<u>26,047</u>	<u>20,261</u>
Included in current assets			
Recoverable value-added tax	33,825	13,713	3,633
Contract fulfilment costs (<i>Note 5</i>)	12,472	11,703	13,406
Prepaid revenue share to IP holders (<i>Note (a)</i>)	31	165	176
Rental deposits	3,980	737	6,825
Interest receivable	1,907	691	1,485
Prepaid advertising expenses	1,756	134	8
Prepayment for listing expenses	—	—	1,289
Others	7,238	6,439	6,496
	<u>61,209</u>	<u>33,582</u>	<u>33,318</u>

Note:

- (a) Prepaid revenue share to IP holders will be amortized to cost when the gross billings generated from games meet the pre-agreed threshold.

20 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at December 31,		
	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Investments in wealth management products (<i>Note (a)</i>)	663,749	531,197	330,968

Movements in financial assets at fair value through profit or loss during the year ended December 31, 2017, 2018 and 2019 are as follows:

	As at December 31,		
	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At beginning of the year	283,002	663,749	531,197
Addition	3,715,089	3,062,700	2,575,030
Disposal	(3,359,296)	(3,226,988)	(2,801,898)
Realized and unrealized gains	24,954	31,736	26,639
At end of the year	663,749	531,197	330,968
Unrealized gains recognized in the combined statement of profit or loss included in the above balance	6,749	1,487	2,968

Note:

- (a) The Group purchased certain wealth management products issued by certain major commercial banks in the PRC. The Group has classified its investments in such wealth management products as financial assets at fair value through profit or loss. Fair values of these investments were estimated based on expected return of each wealth management products held by the Group.

21 BANK BALANCES AND CASH

(a) Cash and cash equivalents

	As at December 31,		
	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cash at bank and on hand	383,609	588,391	728,318

Cash and cash equivalents are dominated in the following currencies:

	As at December 31,		
	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
RMB	81,203	243,770	366,025
US\$	299,448	340,903	303,291
HK\$	2,958	3,718	59,002
	383,609	588,391	728,318

The conversion of the RMB denominated balances maintained in the PRC into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

(b) Term deposits

	As at December 31,		
	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current			
Term deposits with initial term over three months	229,285	—	142,663

Term deposits are dominated in the following currency:

	As at December 31,		
	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
US\$	229,285	—	142,663

The interest rates on term deposits with the maturity over three months as at December 31, 2017, December 31, 2018 and December 31, 2019 were in the range of 2.47% to 2.65%, nil and 0.65% to 2.65%, per annum, respectively.

22 COMBINED CAPITAL

For the purpose of Historical Financial Information, the combined capital during the Track Record Period represents the combined share capital of the companies comprising the Group after elimination of inter-company transactions and balances. Movements in combined capital during the Track Record Period mainly comprised:

	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At January 1,	7,000	8,111	8,111
Capital contribution from a then shareholder (a)	1,111	—	—
Share reformation (b)	—	—	569,864
At December 31,	8,111	8,111	577,975

Notes:

- (a) On January 11, 2017, Tianjin Loong and Ningbo Longren entered into a capital increase agreement, upon which Ningbo Longren contributed additional capital of RMB1,111,000 to Tianjin Loong.
- (b) On January 14, 2019, Tianjin Loong was converted into a joint stock limited company. Upon such share reformation, other reserves amounting to RMB5,000,000 and retained earnings amounting to RMB564,864,000 were transferred to combined capital.

23 OTHER RESERVES

	Capital reserve	Statutory reserve	Share-based compensation reserve	Currency translation differences	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2017	—	5,000	—	(3)	—	4,997
Share-based compensation (Note 24)	—	—	199,000	—	—	199,000
Appropriation to statutory reserves	—	8,783	—	—	—	8,783
Fair value changes on convertible redeemable preferred shares due to own credit risk (Note 25)	—	—	—	—	(16,411)	(16,411)
Currency translation differences	—	—	—	(857)	—	(857)
At December 31, 2017	<u>—</u>	<u>13,783</u>	<u>199,000</u>	<u>(860)</u>	<u>(16,411)</u>	<u>195,512</u>
At January 1, 2018	—	13,783	199,000	(860)	(16,411)	195,512
Capital contribution (Note 26)	4,678	—	—	—	—	4,678
Fair value changes on convertible redeemable preferred shares due to own credit risk (Note 25)	—	—	—	—	(1,552)	(1,552)
Currency translation differences	—	—	—	(648)	—	(648)
At December 31, 2018	<u>4,678</u>	<u>13,783</u>	<u>199,000</u>	<u>(1,508)</u>	<u>(17,963)</u>	<u>197,990</u>
At January 1, 2019	4,678	13,783	199,000	(1,508)	(17,963)	197,990
Share reformation (Note 22)	—	(5,000)	—	—	—	(5,000)
Fair value changes on convertible redeemable preferred shares due to own credit risk (Note 25)	—	—	—	—	(3,455)	(3,455)
Currency translation differences	—	—	—	342	—	342
At December 31, 2019	<u>4,678</u>	<u>8,783</u>	<u>199,000</u>	<u>(1,166)</u>	<u>(21,418)</u>	<u>189,877</u>

24 SHARE-BASED PAYMENTS

(a) Employee incentive scheme of Tianjin Loong — the Scheme 2017

On August 6, 2017, the board of Tianjin Loong approved the establishment of employee incentive scheme (the “Scheme 2017”) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. Eligible participants of the Scheme include employees of Tianjin Loong.

The total expenses recognized in the combined statements of profit or loss for share-based awards granted under the Scheme 2017 to the Group’s employees are RMB199,000,000, nil, and nil for the years ended December 31, 2017, 2018 and 2019, respectively.

Tianjin Loong reserved 8.7% of total capital interests in Ningbo Longren, the employee incentive platform, to award certain eligible participants. The capital interests were granted in the form of entitlement of Ningbo Longren's equity interest on December 27, 2017, upon payment of a grant price at RMB1 per 1% equity interest in Ningbo Longren by the grantees. The granted capitals were vested immediately on grant date.

(i) *Fair value of the granted capitals*

The Group has used the discounted cash flow method to determine the underlying equity fair value of Tianjin Loong and to determine the fair value of the underlying capital interests. Key assumptions are determined by the Group with best estimate and are summarised below:

As at December 27, 2017	
Risk-free interest rate	3.84%
Dividend yield	—
Expected volatility	53.40%
Fair value per unit of capital	179.48

(b) **RSU Scheme**

On January 2, 2020, the Group allotted an aggregate of 5,000,000 shares to Smooth Ebony Limited, which serves as the settlor for the shares on trust under the restricted share unit scheme ("RSU Scheme") of the Company. For the years ended December 31, 2017, 2018 and 2019, there was no equity instrument granted under the RSU Scheme. (Note 33(b))

25 CONVERTIBLE REDEEMABLE PREFERRED SHARES

On August 10, 2015, Tianjin Loong issued certain capital interests of RMB143,017,000 to Perfect World. On January 11, 2017, Tianjin Loong issued certain capital interests of RMB260,000,000 to Linzhi Lichuang. Upon the issuance of these capital interests, Perfect World, Linzhi Lichuang (together, "Investors") and Tianjin Loong have entered into several shareholders' agreements ("Domestic Shareholders Agreements") where Perfect World and Linzhi Lichuang were granted certain preferred rights.

The key terms of the preferred rights are summarized as follows:

Upon liquidation, dissolution, winding up or any other liquidation events of Tianjin Loong as defined in the Domestic Shareholders Agreements, all assets and funds legally available for distribution to the shareholders (after satisfaction of all creditors' claims and claims that may be preferred by law) shall be distributed to the Investors prior to and in preference to all of the other shareholders of Tianjin Loong. The preferential liquidation amount shall be equal to any dividends declared and unpaid with respect to the Preferred Shares plus the higher of: (i) certain predetermined amount for Perfect World/Linzhi Lichuang's accumulated investment amount in Tianjin Loong plus interest of 8% per annum simple interest for Linzhi Lichuang, (ii) an amount that the Investors would receive on an as-converted basis assuming that the assets of Tianjin Loong available for distribution to the shareholders are to be distributed to the Investors and the holders of other capital interests on a pro rata basis.

Perfect World and Linzhi Lichuang are entitled to require and demand the redemption of all or part of its Preferred Shares at any time from Beijing Loong, Ningbo Longren, Mr. Li Qing, Mr. Xiang Nan, Mr. Zhang Yu, Mr. Bai Wei and Tianjin Loong after the occurrence of any of the following events: (i) failure of a QIPO (an initial public offering by Tianjin Loong of its shares on domestic or any other internationally recognized stock exchange, or capital transactions with listed companies through reorganizations) or sale of all or substantially all of the assets of Tianjin Loong approved by a shareholders' resolution to take place within five years from Linzhi Lichuang Preferred Shares issue date; (ii) any material breach of the Domestic Shareholders Agreements by Beijing Loong, Ningbo Longren, Mr. Li Qing, Mr. Xiang Nan, Mr. Zhang Yu and Mr. Bai Wei; (iii) any material dishonest behavior or frauds by certain members of management. The redemption price shall be calculated equal to: (i) certain predetermined amount for Perfect World/Linzhi Lichuang's accumulated investment amount in Tianjin Loong for Linzhi Lichuang, plus (ii) an 8% per annum simple interest, and (iii) any declared but unpaid dividends thereon.

The Investors shall have the right to convert their investments in Tianjin Loong to equivalent investments in the Company.

The movements of the convertible redeemable preferred shares are set out as below:

	RMB'000
At January 1, 2017	315,531
Issuance of Preferred Shares	260,000
Changes in fair value	399,974
<i>Includes: change in fair value due to own credit risk</i>	16,411
Dividend declared and paid	<u>(60,000)</u>
At December 31, 2017	<u>915,505</u>
Total unrealized gains and change in fair value for the year included in "Fair value changes on convertible redeemable preferred shares"	<u>323,563</u>
At January 1, 2018	915,505
Transfer to other non-current liabilities (<i>Note 26</i>)	(157,150)
Changes in fair value	382,883
<i>Includes: change in fair value due to own credit risk</i>	1,552
Dividend declared and paid	<u>(97,500)</u>
At December 31, 2018	<u>1,043,738</u>
Total unrealized gains and change in fair value for the year included in "Fair value changes on convertible redeemable preferred shares"	<u>283,831</u>
At January 1, 2019	1,043,738
Changes in fair value	215,910
<i>Includes: change in fair value due to own credit risk</i>	<u>3,455</u>
At December 31, 2019	<u>1,259,648</u>
Total unrealized gains and change in fair value for the period included in "Fair value changes on convertible redeemable preferred shares"	<u>212,455</u>

The Group engaged a third party appraisal firm to support its determination of the fair value of Preferred Shares. The discounted cash flow method was used to determine the underlying share value of Tianjin Loong and equity allocation model was adopted to determine the fair value of the Preferred Shares as of the dates of issuance and at the end of each reporting period.

Key valuation assumptions used to determine the fair value of Preferred Shares are as follows:

	As at December 31,		
	2017	2018	2019
Discount rate	20.00%	18.00%	18.00%
Risk-free interest rate	3.84%	2.68%	2.17%
Volatility	53.40%	48.36%	50.12%

Discount rate was estimated by weighted average cost of capital as of each valuation date. Risk-free interest rate was estimated based on the yield of China Government Bond with a maturity life equal to the expected terms for an exit event as of the valuation date. Volatility was estimated based on annualized standard deviation of daily stock price return of comparable companies for the period before valuation date and with similar span as time to exit. Probability weight under each of the redemption feature and liquidation preferences was based on the directors' best estimates. In addition to the assumptions adopted above, the Group's projections of future performance were also factored into the determination of the fair value of Preferred Shares on each valuation date.

26 OTHER NON-CURRENT LIABILITIES

	As at December 31,		
	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Redemption liability in relation to a put option granted to its then shareholder of Tianjin Loong (a)	—	157,468	174,195

Note:

- (a) On August 24, 2018, Beijing Loong and Perfect World entered into an equity transfer agreement, pursuant to which Perfect World agreed to transfer 4.49% equity interests in Tianjin Loong (“Transferred Capitals”), to Beijing Loong at a consideration of RMB157,150,000 (“Transaction Price”). After the closing of the transaction, the Transferred Capitals were held as capitals with a put option to be sold back to Tianjin Loong in the event that a QIPO shall fail to take place within the period of four years from the date of payment of the Transaction Price, at a price equivalent of the Transaction Price minus dividends received during the period the Transferred Capitals were held by Beijing Loong, plus an eight percent per annum simple interest, and any declared but unpaid dividends thereon (“Redemption Price”). Accordingly, the Group recognized such redemption liability at present value of the Redemption Price in the amount of RMB152,472,000. The difference between such amount and the fair value of the Transferred Capitals was treated as deemed capital contribution (Note 23). The interests accrued on the redemption liability were recorded as finance costs (Note 10).

27 DEFERRED INCOME TAXES

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	As at December 31,		
	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Gross deferred tax assets	9,436	8,641	9,218
Set-off of deferred tax liabilities pursuant to set-off provisions	(2,838)	(1,940)	(2,030)
Net deferred tax assets	6,598	6,701	7,188
— to be recovered within 12 months	1,971	1,941	6,396
— to be recovered after more than 12 months	4,627	4,760	792
Gross deferred tax liabilities	(2,849)	(1,940)	(2,030)
Set-off of deferred tax liabilities pursuant to set-off provisions	2,838	1,940	2,030
Net deferred tax liabilities	(11)	—	—
— to be recovered within 12 months	(11)	—	—

The movements in the gross deferred tax assets accounts are as follows:

	Allowance for impairment of trade receivables	Tax losses	Contract liabilities	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At January 1, 2017	707	25,314	15	26,036
(Charged)/Credited to the combined statements of profit or loss	<u>(247)</u>	<u>(20,833)</u>	<u>4,480</u>	<u>(16,600)</u>
At December 31, 2017	<u>460</u>	<u>4,481</u>	<u>4,495</u>	<u>9,436</u>
At January 1, 2018	460	4,481	4,495	9,436
Charged to the combined statements of profit or loss	<u>(181)</u>	<u>—</u>	<u>(614)</u>	<u>(795)</u>
At December 31, 2018	<u>279</u>	<u>4,481</u>	<u>3,881</u>	<u>8,641</u>
At January 1, 2019	279	4,481	3,881	8,641
Credited/(Charged) to the combined statements of profit or loss	<u>512</u>	<u>215</u>	<u>(150)</u>	<u>577</u>
At December 31, 2019	<u>791</u>	<u>4,696</u>	<u>3,731</u>	<u>9,218</u>

The movements in the gross deferred tax liabilities accounts are as follows:

	Fair value change in financial assets at fair value through profit or loss	Contract cost	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At January 1, 2017	(181)	—	(181)
Charged to the combined statements of profit or loss	<u>(830)</u>	<u>(1,838)</u>	<u>(2,668)</u>
At December 31, 2017	<u>(1,011)</u>	<u>(1,838)</u>	<u>(2,849)</u>
At January 1, 2018	(1,011)	(1,838)	(2,849)
Credit to the combined statements of profit or loss	<u>788</u>	<u>121</u>	<u>909</u>
At December 31, 2018	<u>(223)</u>	<u>(1,717)</u>	<u>(1,940)</u>
At January 1, 2019	(223)	(1,717)	(1,940)
(Charged)/Credited to the combined statements of profit or loss	<u>(222)</u>	<u>132</u>	<u>(90)</u>
At December 31, 2019	<u>(445)</u>	<u>(1,585)</u>	<u>(2,030)</u>

Deferred income tax assets are recognized for tax losses carried forward and deductible temporary differences to the extent that realization of the related tax benefits through the future taxable profits is probable. As at December 31, 2017, 2018 and 2019, the Group did not recognize deferred income tax assets of RMB783,000, RMB1,647,000 and RMB1,341,000 in respect of cumulative tax losses amounting to RMB3,130,000, RMB6,586,000 and RMB5,365,000 that can be carried forward against future taxable income. These tax losses will expire from year 2018 to 2022.

28 TRADE AND OTHER PAYABLES

	As at December 31,		
	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	153,423	98,775	84,831
Payroll liabilities	99,547	49,588	51,048
Tax payables	31,789	7,356	10,063
Others	14,749	9,181	10,922
	<u>299,508</u>	<u>164,900</u>	<u>156,864</u>

The following table sets forth the carrying amount of trade payables by customer types:

	As at December 31,		
	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Related parties (<i>Note 31(c)</i>)	124,836	91,016	18,191
Third parties	28,587	7,759	66,640
	<u>153,423</u>	<u>98,775</u>	<u>84,831</u>

The aging analysis of trade payables based on recognition date is as follows:

	As at December 31,		
	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Up to 6 months	52,318	20,346	72,946
6 months to 1 year	90,511	23,370	10,269
Over 1 year	10,594	55,059	1,616
	<u>153,423</u>	<u>98,775</u>	<u>84,831</u>

29 CASH FLOW INFORMATION

(a) Cash generated from operations

	As at December 31,		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
(Loss)/profit before income tax	(95,847)	(63,505)	145,074
Adjustments for:			
Amortization of intangible assets <i>(Note 15)</i>	4,822	7,888	11,734
Depreciation of property, plant and equipment <i>(Note 14)</i>	3,528	4,495	5,707
Depreciation of right-of-use assets <i>(Note 16)</i>	16,061	17,566	23,651
Allowance for impairment of trade receivables <i>(Note 8)</i>	(667)	(349)	4,249
Share-based compensation <i>(Note 24)</i>	199,000	—	—
Fair value changes in wealth management products <i>(Note 20)</i>	(24,954)	(31,736)	(26,639)
Fair value changes on convertible redeemable preferred shares <i>(Note 25)</i>	383,563	381,331	212,455
Finance (income)/costs, net	(6,736)	(6,965)	9,219
Net exchange differences	29,872	(30,875)	(4,637)
Change in working capital:			
Decrease/(increase) in trade receivables	160,547	13,735	(269,302)
(Increase)/decrease in prepayment, other receivables and other assets	(35,018)	19,626	7,276
Increase/(decrease) in trade and other payables	30,390	(127,034)	(7,541)
Increase/(decrease) in contract liabilities	617	(26,414)	(7,986)
Cash generated from operating activities	<u>665,178</u>	<u>157,763</u>	<u>103,260</u>

(b) Reconciliation of liabilities arising from financing activities

	Liabilities from financing activities			Total RMB'000
	Lease liabilities RMB'000	Convertible Redeemable Preferred Shares RMB'000	Other non-current liabilities RMB'000	
As at January 1, 2017	23,439	315,531	—	338,970
Cash flows	(22,111)	260,000	—	237,889
Fair value changes on convertible redeemable preferred shares (Note 25)	—	399,974	—	399,974
Dividend declared and paid	—	(60,000)	—	(60,000)
Other non-cash movements-accrue interest	867	—	—	867
Other non-cash movements-increase of leasing liabilities	5,730	—	—	5,730
As at December 31, 2017	<u>7,925</u>	<u>915,505</u>	<u>—</u>	<u>923,430</u>
Cash flows	(18,012)	—	—	(18,012)
Fair value changes on convertible redeemable preferred shares (Note 25)	—	382,883	—	382,883
Dividend declared and paid	—	(97,500)	—	(97,500)
Other non-cash movements-accrue interest	667	—	4,996	5,663
Other non-cash movements-increase of leasing liabilities	42,288	—	—	42,288
Transfer to other non-current liabilities (Note 26)	—	(157,150)	152,472	(4,678)
As at December 31, 2018	<u>32,868</u>	<u>1,043,738</u>	<u>157,468</u>	<u>1,234,074</u>
Cash flows	(23,624)	—	—	(23,624)
Fair value changes on convertible redeemable preferred shares (Note 25)	—	215,910	—	215,910
Other non-cash movements-accrue interest	1,097	—	16,727	17,824
Other non-cash movements-increase of leasing liabilities	26,922	—	—	26,922
As at December 31, 2019	<u>37,263</u>	<u>1,259,648</u>	<u>174,195</u>	<u>1,471,106</u>

30 COMMITMENTS

(a) Capital Commitments

The Group had the following capital commitments under non-cancelable purchase agreements at the end of each reporting period.

	Year ended December 31,		
	2017 RMB'000	2018 RMB'000	2019 RMB'000
Intangible assets	—	13,726	29,998

(b) Operating lease commitments

The Group has non-cancelable operating lease agreements with initial terms of 12 months or less. The portfolio of short-term leases to which the Group was committed as at December 31, 2017, 2018 and 2019 is similar to the portfolio of short-term lease to which the short-term lease expenses is disclosed in Note 16.

31 RELATED PARTY TRANSACTIONS

Save as disclosed in other notes, the following significant transactions were carried out between the Group and its related parties during the Track Record Period. In the opinion of the directors of the Company, the related party transactions were carried out in the normal course of business and at terms negotiated between the Group and the respective related parties.

(a) Names and relationships with related parties

The following companies are related parties of the Group that had balances and/or transactions with the Group during the Track Record Period.

Company	Relationship
Shenzhen Tencent Computer Systems Company Limited	Subsidiary of a shareholder that has significant influence on the Group
Perfect Game Speed Company Limited	Subsidiary of a shareholder that has significant influence on the Group
Chongqing Perfect World Interactive Technology Co., Ltd.	Subsidiary of a shareholder that has significant influence on the Group
Beijing Perfect World Software Technology Development Co., Ltd.	Subsidiary of a shareholder that has significant influence on the Group
Chengdu Perfect World Network Technology Co., Ltd.	Subsidiary of a shareholder that has significant influence on the Group
Tencent Cloud Computing (Beijing) Company Limited	Subsidiary of a shareholder that has significant influence on the Group
Chongqing Perfect Junbai Media & Culture Co.,Ltd.	Subsidiary of a shareholder that has significant influence on the Group
Chongqing Perfect World Network Development Co., Ltd.	Subsidiary of a shareholder that has significant influence on the Group
Beijing Tencent Culture Media Company Limited	Subsidiary of a shareholder that has significant influence on the Group
Sixjoy Hong Kong Limited	Subsidiary of a shareholder that has significant influence on the Group

(b) Significant transactions with related parties

	Year ended December 31,		
	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<i>Provision of services:</i>			
Shenzhen Tencent Computer Systems Company Limited	518,495	354,713	586,487
Perfect Game Speed Company Limited	6,631	1,721	12
Chongqing Perfect World Interactive Technology Co., Ltd.	7,822	1,230	—
Beijing Perfect World Software Technology Development Co., Ltd.	5,760	1,168	—
	<u>538,708</u>	<u>358,832</u>	<u>586,499</u>
	Year ended December 31,		
	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<i>Purchase of services:</i>			
Chengdu Perfect World Network Technology Co., Ltd.	64,567	22,246	11,871
Beijing Perfect World Software Technology Development Co., Ltd.	31,654	13,526	7,683
Shenzhen Tencent Computer Systems Company Limited	17,398	8,558	1,899
Chongqing Perfect World Interactive Technology Co., Ltd.	7,164	—	—
Tencent Cloud Computing (Beijing) Company Limited	3,255	3,980	3,391
Chongqing Perfect Junbai Media & Culture Co.,Ltd.	283	1,415	—
Chongqing Perfect World Network Development Co., Ltd.	—	2,596	—
Beijing Tencent Culture Media Company Limited	—	—	1,415
	<u>124,321</u>	<u>52,321</u>	<u>26,259</u>

(c) Year end balances with related parties

	As at December 31,		
	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<i>Trade receivables from related parties:</i>			
Shenzhen Tencent Computer Systems Company Limited	109,567	176,717	424,168
Perfect Game Speed Company Limited	23,173	103	—
Chongqing Perfect World Interactive Technology Co., Ltd.	2,800	1,216	—
Beijing Perfect World Software Technology Development Co., Ltd.	445	16	—
	<u>135,985</u>	<u>178,052</u>	<u>424,168</u>

The receivables from related parties arise mainly from sale transactions. The receivables are unsecured in nature and interest-free.

	As at December 31,		
	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<i>Contract liabilities to related parties:</i>			
Shenzhen Tencent Computer Systems Company Limited	6,918	3,145	2,358
Sixjoy Hong Kong Limited	—	—	5,244
	<u>6,918</u>	<u>3,145</u>	<u>7,602</u>

The contract liabilities to related parties arise from trade transactions.

	As at December 31,		
	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<i>Trade payables to related parties:</i>			
Beijing Perfect World Software Technology Development Co., Ltd.	39,347	33,527	6,025
Chengdu Perfect World Network Technology Co., Ltd.	85,012	56,900	11,944
Tencent Cloud Computing (Beijing) Company Limited	177	292	222
Chongqing Perfect Junbai Media & Culture Co.,Ltd.	300	—	—
Chongqing Perfect World Network Development Co., Ltd.	—	297	—
	<u>124,836</u>	<u>91,016</u>	<u>18,191</u>

(d) Key management compensation

Key management includes executive directors and other members of the Company's senior management team. The compensation paid or payable to key management for employee services is shown below:

	Year ended December 31,		
	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Wages, salaries and bonuses	22,573	6,310	7,360
Other social security costs and housing benefits and other employee benefits . .	280	304	328
Pension costs — defined contribution plans	223	243	220
Share-based compensation	<u>23,880</u>	<u>—</u>	<u>—</u>
	<u>46,956</u>	<u>6,857</u>	<u>7,908</u>

32 CONTINGENCIES

The Group did not have any material contingent liabilities as at December 31, 2017, 2018 and 2019.

33 SUBSEQUENT EVENTS

Save as disclosed in the report, significant events that take place subsequent to December 31, 2019 are as follows:

- (a) Pursuant to a shareholders' resolution of Tianjin Loong on February 28, 2020, Tianjin Loong declared and shall pay a dividend amounting RMB350 million to its then shareholders. The dividend has been paid as at April 1, 2020.

- (b) On April 1, 2020 and June 24, 2020, 3,059,700 and 121,000 underlying shares represented by the restricted share units (“RSUs”) have been granted to certain employees of the Group respectively, under the RSU Scheme approved and adopted by the Company on April 1, 2020.

Pursuant to the RSU Scheme, subject to grantee’s employment or service to the Group through the applicable vesting date, the RSUs shall become vested with respect to 40%, 30% and 30% of the RSUs on each of the first trading day after 12, 24 and 36 months from the listing date of the Company.

As the Group will receive employment or service of these employees in exchange for the grant of RSUs, share-based compensation expenses in respect of the employee services received is to be recognized as an expense over the vesting period. The total amount to be expensed is determined by the fair value of the RSUs granted at the grant date and taking into account the number of RSUs that are expected to be vested.

- (c) After the outbreak of Coronavirus Disease 2019 (“COVID-19 outbreak”) in early 2020, a series of precautionary and control measures have been and continued to be implemented across the country. The Group has been paying close attention to the development of the COVID-19 outbreak and has evaluated its impact on the financial position and operating results of the Group. As of the date of this report, the Group was not aware of any material adverse effects on the financial statements as a result of the COVID-19 outbreak.

III HISTORICAL FINANCIAL INFORMATION OF THE COMPANY

As at December 31, 2019, the Company had not been incorporated and, accordingly, it had no assets, liabilities or distributable reserves as at that date.

IV SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to December 31, 2019 and up to the date of this report.

Save as disclosed in this report, no dividend or distribution has been declared or made by the Company or any of the companies now comprising the Group in respect of any period subsequent to December 31, 2019.

The information set out in this Appendix does not form part of the Accountant's Report from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, the reporting accountant of the Company, as set out in Appendix I in this prospectus, and is included herein for illustrative purposes only.

The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the Accountant's Report set out in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma adjusted net tangible assets prepared in accordance with Rule 4.29 of the Listing Rules are set out below to illustrate the effect of the Global Offering on the combined net tangible assets of the Group attributable to the owners of the Company as of December 31, 2019 as if the Global Offering had taken place on that date.

The unaudited pro forma adjusted net tangible assets has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the combined net tangible assets of the Group had the Global Offering been completed as at December 31, 2019 or at any future dates.

	Audited combined net tangible assets of the Group attributable to the owners of the Company as at December 31, 2019 <i>(Note 1)</i>	Estimated impact to the net tangible assets attributable to the owners of the Company arising from conversion of preferred shares <i>(Note 2)</i>	Estimated net proceeds from the Global Offering <i>(Note 3)</i>	Unaudited pro forma adjusted net tangible assets of the Group attributable to the owners of the Company	Unaudited pro forma adjusted net tangible assets per Share <i>(Note 4)</i>	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB</i>	<i>HK\$</i>
Based on an Offer Price of						
HK\$9.80 per Share	<u>126,069</u>	<u>1,433,843</u>	<u>1,564,389</u>	<u>3,124,301</u>	<u>4.19</u>	<u>4.58</u>
Based on an Offer Price of						
HK\$11.60 per Share	<u>126,069</u>	<u>1,433,843</u>	<u>1,860,654</u>	<u>3,420,566</u>	<u>4.59</u>	<u>5.02</u>

Notes:

- (1) The audited combined net tangible assets of the Group attributable to the owners of the Company as at December 31, 2019 is extracted from the Accountant's Report set out in Appendix I to this prospectus, which is based on the audited combined net assets of the Group attributable to the owners of the Company as at December 31, 2019 of RMB170,102,000 with adjustments for the intangible assets as at December 31, 2019 of RMB44,033,000.

- (2) (a) Series A preferred shares and Series B preferred shares will be automatically converted into fully-paid ordinary shares upon the Listing. The preferred shares would be re-designated from liabilities to equity upon conversion. For the purpose of this unaudited pro forma financial information, the net tangible assets attributable to owners of the Company would increase by RMB 1,259,648,000 as if Series A preferred shares and Series B preferred shares were converted into ordinary shares on December 31, 2019. The amount is calculated based on the corresponding carrying value of these preferred shares as of December 31, 2019.
- (b) The preferred shares of Tianjin Loong held by Beijing Loong will be converted into ordinary shares upon the Listing. The preferred shares will be re-designated from liabilities to equity. For the purpose of this unaudited pro forma financial information, the net tangible assets attributable to owners of the Company would increase by RMB 174,195,000 as if the preferred shares of Tianjin Loong held by Beijing Loong were converted into ordinary shares on December 31, 2019. The amount is calculated based on the carrying value of these preferred shares as of December 31, 2019.
- (3) The estimated net proceeds from the Global Offering are based on the indicative Offer Price of HK\$9.80 and HK\$11.60 per share, respectively, after deduction of the underwriting fees and other related expenses (excluding listing expenses of approximately RMB4,907,000 which have been already charged to income statements during the Track Record Period) payable by the Company and takes no account of any Shares which may fall to be issued upon the exercise of the Over-allotment Option, the options granted under the RSU Scheme or any Shares which may be granted and issued or repurchased by the Company pursuant to the general mandate to issue Shares and the general mandate to repurchase Shares.
- (4) The unaudited pro forma net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 746,000,002 Shares (including the completion of the conversion of the preferred shares into fully-paid ordinary shares as described in note (2) above but excluding share subscription after December 31, 2019 as described in note (5) below and the unvested 29,400,000 shares under RSU scheme) were in issue assuming that the Global Offering and Capitalization Issue had been completed on December 31, 2019 but takes no account of any Shares which may fall to be issued upon the exercise of the Over-allotment Option and the options granted under the RSU Scheme.
- (5) Except as disclosed above, no other adjustment has been made to reflect any trading results or other transactions of the Group entered into subsequent to December 31, 2019. Among others, the following transactions have not been taken into account:
- (a) The dividend distribution plan approved on February 28, 2020, pursuant to which Tianjin Loong shall distribute a cash dividend of RMB350,000,000 to its then shareholders.
- (b) The Offshore Share Subscription Agreement entered into by the Company and Perfect World Interactive and Image Frame on March 4, 2020, pursuant to which each Perfect World Interactive and Image Frame further subscribe 1,020,408 Series C-2 Preferred Shares at U.S. Dollars equivalent of RMB50,000,000.

The unaudited pro forma adjusted net tangible assets per Share would have been RMB3.79 (HK\$4.14) and RMB4.18 (HK\$4.57) per share based on the Offer Price of HK\$9.80 and HK\$11.60 respectively assuming 758,000,000 shares were in issue (excluding the unvested 29,400,000 shares under RSU scheme) and taking into account the effect of such dividend and Offshore Share Subscription Agreement as described above.

- (6) For the purpose of this unaudited pro forma adjusted net tangible assets, the amounts stated in Renminbi are converted into Hong Kong dollars at the rate of HK\$1.00 to RMB0.91496.

B. REPORT FROM THE REPORTING ACCOUNTANT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.



羅兵咸永道

INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

To the Directors of Archosaur Games Inc.

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Archosaur Games Inc. (the "Company") and its subsidiaries (collectively the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted combined net tangible assets of the Group as at December 31, 2019, and related notes (the "Unaudited Pro Forma Financial Information") as set out on pages II-1 to II-2 of the Company's prospectus dated June 30, 2020, in connection with the proposed initial public offering of the shares of the Company (the "Prospectus"). The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described on pages II-1 to II-2 of the Prospectus.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the proposed initial public offering on the Group's financial position as at December 31, 2019 as if the proposed initial public offering had taken place at December 31, 2019. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's financial information for the year ended December 31, 2019, on which an accountant's report has been published.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the Unaudited 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 7, *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

*PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com*

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 behaviour.

Our firm applies Hong Kong Standard on Quality Control 1 issued by the HKICPA 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 Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited 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 Unaudited 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 accountant plans and performs procedures to obtain reasonable assurance about whether the Directors have compiled the Unaudited 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 Unaudited 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 Unaudited Pro Forma Financial Information.

The purpose of unaudited pro forma financial information included in a prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or 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 proposed initial public offering at December 31, 2019 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited 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 unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the company, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our work has not been carried out in accordance with auditing standards or other standards and practices generally accepted in the United States of America or auditing standards of the Public Company Accounting Oversight Board (United States) or standards and practices of any professional body in any other overseas jurisdiction and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Opinion

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the Directors on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, June 30, 2020

APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND THE CAYMAN COMPANIES LAW

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of the Cayman Companies Law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 2 January 2020 under the Cayman Companies Law. The Company's constitutional documents consist of its Memorandum and Articles of Association.

1. MEMORANDUM OF ASSOCIATION

1.1 The Memorandum provides, *inter alia*, that the liability of members of the Company is limited and that the objects for which the Company is established are unrestricted (and therefore include acting as an investment company), and that the Company shall have and be capable of exercising any and all of the powers at any time or from time to time exercisable by a natural person or body corporate whether as principal, agent, contractor or otherwise and, since 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.

1.2 By special resolution the Company may alter the Memorandum with respect to any objects, powers or other matters specified in it.

2. ARTICLES OF ASSOCIATION

The Articles were conditionally adopted on 24 June 2020. A summary of certain provisions of the Articles is set out below.

2.1 Shares

(a) *Classes of shares*

The share capital of the Company consists of ordinary shares.

(b) *Variation of rights of existing shares or classes of shares*

Subject to the Cayman 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 any class of shares may (unless otherwise provided for by the terms of issue of the shares 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. The provisions of the Articles relating to general meetings shall *mutatis mutandis* apply to every such separate general meeting, provided that the necessary quorum (other than at an adjourned meeting) shall be not less than two persons together holding (or, in the case of a shareholder being a corporation, by its duly authorised representative) or representing by proxy not less than one-third in nominal value of the issued shares of that class. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

**APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY
AND THE CAYMAN COMPANIES LAW**

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.

(c) *Alteration of capital*

The Company may, by an ordinary resolution of its members: (a) increase its share capital by the creation of new shares of such amount as it thinks expedient; (b) consolidate or divide all or any of its share capital into shares of larger or smaller amount than its existing shares; (c) divide its unissued shares into several classes and attach to such shares any preferential, deferred, qualified or special rights, privileges or conditions; (d) subdivide its shares or any of them into shares of an amount smaller than that fixed by the Memorandum; (e) cancel any shares which, at the date of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled; (f) make provision for the allotment and issue of shares which do not carry any voting rights; (g) change the currency of denomination of its share capital; and (h) reduce its share premium account in any manner authorised and subject to any conditions prescribed by law.

(d) *Transfer of shares*

Subject to the Cayman Companies Law and the requirements of the Stock Exchange, all transfers of shares shall be effected by an instrument of transfer in the usual or common form or in such other form as the Board may approve and may be under hand or, if the transferor or transferee is a Clearing House (as defined in the Articles) or its nominee(s), under hand or by machine imprinted signature, or by such other manner of execution as the Board may approve from time to time.

Execution of the instrument of transfer shall be 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 transferor or transferee or accept mechanically executed transfers. The transferor shall be deemed to remain the holder of a share until the name of the transferee is entered in the register of members of the Company in respect of that share.

The Board may, in its absolute discretion, at any time and from time to time remove any share on the principal share registrar to any branch register or any share on any branch register to the principal share registrar or any other branch register.

Unless the Board otherwise agrees, no shares on the principal share registrar shall be removed to any branch register nor shall shares on any branch register be removed to the principal share registrar or any other branch register. All removals and other documents of title shall be lodged for registration and registered, in the case of shares on any branch register, at the relevant registration office and, in the case of shares on the principal share registrar, at the place at which the principal share registrar is located.

The Board may, in its absolute discretion, decline to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or on which the Company has a lien. It may also decline to register a transfer of any share issued under any share option scheme upon which a restriction on transfer subsists or a transfer of any share to more than four joint holders.

APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND THE CAYMAN COMPANIES LAW

The Board may decline to recognise any instrument of transfer unless a certain fee, up to such maximum sum as the Stock Exchange may determine to be payable, is paid to the Company, the instrument of transfer is properly stamped (if applicable), is in respect of only one class of share and is lodged at the relevant registration office or the place at which the principal share registrar is located accompanied by the relevant share certificate(s) and such other evidence as the Board may reasonably require is provided 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 register of members may, subject to the Listing Rules, be closed at such time or for such period not exceeding in the whole 30 days in each year as the Board may determine (or such longer period as the members of the Company may by ordinary resolution determine, provided that such period shall not be extended beyond 60 days in any year).

Fully paid shares shall be free from any restriction on transfer (except when permitted by the Stock Exchange) and shall also be free from all liens.

(e) Power of the Company to purchase its own shares

The Company may 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 requirement imposed from time to time by the Articles or any code, rules or regulations issued from time to time by the Stock Exchange and/or the Securities and Futures Commission of Hong Kong.

Where the Company purchases for redemption a redeemable share, purchases not made through the market or by tender shall be limited to a maximum price and, if purchases are by tender, tenders shall be available to all members alike.

(f) Power of any subsidiary of the Company to own shares in the Company

There are no provisions in the Articles relating to the ownership of shares in the Company by a subsidiary.

(g) Calls on shares and forfeiture of shares

The Board may, from time to time, make such calls as it thinks fit 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) and not by the conditions of allotment of such shares made payable at fixed times. A call may be made payable either in one 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 20 per cent per annum as the Board shall fix from the day appointed for payment 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 money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced the Company may pay interest at such rate (if any) not exceeding 20 per cent per annum as the Board may decide.

If a member fails to pay any call or instalment of a call on the day appointed for payment, the Board may, for so long as any part of the call or instalment remains unpaid, serve not less than 14 days' notice on the member requiring payment of so much of the call or instalment as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment. The notice shall name a further day (not earlier than the expiration of 14 days from the date of the notice) on or before which the payment required by the notice is to be made, and shall also name the place where payment is to be made. The notice shall also state that, in the event of non-payment at or before the appointed time, 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, nevertheless, remain liable to pay to the Company all monies which, as 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 payment at such rate not exceeding 20 per cent per annum as the Board may prescribe.

2.2 Directors

(a) *Appointment, retirement and removal*

At any time or from time to time, the Board shall have the power to appoint any person as a Director either to fill a casual vacancy on the Board or as an additional Director to the existing Board subject to any maximum number of Directors, if any, as may be determined by the members in general meeting. Any Director so appointed to fill a casual vacancy shall hold office only until the first general meeting of the Company after his appointment and be subject to re-election at such meeting. Any Director so appointed as an addition to the existing Board shall hold office only until the first annual general meeting of the Company after his appointment and be eligible for re-election at such meeting. Any Director so appointed by the Board shall not be taken into account in determining the Directors or the number of Directors who are to retire by rotation at an annual general meeting.

At each annual general meeting, one-third of the Directors for the time being shall retire from office by rotation. However, if the number of Directors is not a multiple of three, then the number nearest to but not less than one-third shall be the number of retiring Directors. The Directors to retire in each year shall be those who have been in office longest 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 shall (unless they otherwise agree among themselves) be determined by lot.

No person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected has been lodged at the head office or at the registration office of the Company.

**APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY
AND THE CAYMAN COMPANIES LAW**

The period for lodgment of such notices shall commence no earlier than the day after despatch of the notice of the relevant meeting and end no later than seven days before the date of such meeting and the minimum length of the period during which such notices may be lodged must be at least seven days.

A Director is not required to hold any shares in the Company by way of qualification nor is there any specified upper or lower age limit for Directors either for accession to or retirement from the Board.

A Director may be removed by an ordinary resolution of the Company before the expiration of his term 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 the Company may by ordinary resolution appoint another in his place. Any Director so appointed shall be subject to the retirement by rotation provisions. The number of Directors shall not be less than two.

The office of a Director shall be vacated if he:

- (i) resigns;
- (ii) dies;
- (iii) is declared to be of unsound mind and the Board resolves that his office be vacated;
- (iv) becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (v) he is prohibited from being or ceases to be a director by operation of law;
- (vi) without special leave, is absent from meetings of the Board for six consecutive months, and the Board resolves that his office is vacated;
- (vii) has been required by the stock exchange of the Relevant Territory (as defined in the Articles) to cease to be a Director; or
- (viii) is removed from office by the requisite majority of the Directors or otherwise pursuant to the Articles.

From time to time 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 also delegate any of its powers to committees consisting of such Director(s) or other person(s) as the Board thinks fit, and from time to time it may also 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 shall, in the exercise of the powers so delegated, conform to any regulations that may from time to time be imposed upon it by the Board.

(b) *Power to allot and issue shares and warrants*

Subject to the provisions of the Cayman Companies Law, the Memorandum and Articles and without prejudice to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached to it such rights, or such restrictions, whether with regard to dividend, voting, return of capital or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the Board may determine). Any share may be issued on terms that, upon the happening of a specified event or upon a given date and either at the option of the Company or the holder of the share, it is liable to be redeemed.

The Board may issue warrants to subscribe for any class of shares or other securities of the Company on such terms as it may from time to time determine.

Where warrants are issued to bearer, no certificate in respect of such warrants shall be issued to replace one that has been lost unless the Board is satisfied beyond reasonable doubt that the original certificate has been destroyed and the Company has received an indemnity in such form as the Board thinks fit with regard to the issue of any such replacement certificate.

Subject to the provisions of the Cayman Companies Law, the Articles and, where applicable, the rules of any stock exchange of the Relevant Territory 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 shall be 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, provided that no shares shall be issued at a discount.

Neither the Company nor the Board shall be 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 whose registered addresses are in any particular territory or territories where, in the absence of a registration statement or other special formalities, this is or may, in the opinion of the Board, be unlawful or impracticable. However, no member affected as a result of the foregoing shall be, or be deemed to be, a separate class of members for any purpose whatsoever.

(c) *Power to dispose of the assets of the Company or any of its subsidiaries*

While there are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries, the Board may 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 Cayman Companies Law to be exercised or done by the Company in general meeting, but if such power or act is regulated by the Company in general meeting, such regulation shall not invalidate any prior act of the Board which would have been valid if such regulation had not been made.

(d) *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 uncalled capital of the Company and, subject to the Cayman Companies Law, to issue debentures, debenture stock, 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.

(e) *Remuneration*

The Directors shall be entitled to receive, as ordinary remuneration for their services, such sums as shall from time to time be determined by the Board or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided among the Directors in such proportions and in such manner as they may agree or, failing agreement, either equally or, in the case of any Director holding office for only a portion of the period in respect of which the remuneration is payable, pro rata. The Directors shall also be entitled to be repaid all expenses reasonably incurred by them in attending any Board meetings, committee meetings or general meetings or otherwise in connection with the discharge of their duties as Directors. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

Any Director who, at the request of the Company, performs services which in the opinion of the Board go beyond the ordinary duties of a Director may be paid such special or extra remuneration as the Board may determine, 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 shall be in addition to his ordinary remuneration as a Director.

The Board may establish, either on its own or jointly in concurrence or agreement with subsidiaries of the Company or companies with which the Company is associated in business, or may make 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 former Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and former employees of the Company and their dependents or any class or classes of such persons.

The Board may also pay, enter into agreements to pay or make grants of revocable or irrevocable, whether or not subject to any terms or conditions, pensions or other benefits to employees and former employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or former employees or their dependents are or may become entitled under any such scheme or fund as mentioned above. Such pension or benefit may, if deemed desirable by the Board, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(f) *Compensation or payments for loss of office*

Payments to any present 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 or statutorily entitled) must be approved by the Company in general meeting.

(g) *Loans and provision of security for loans to Directors*

The Company shall not directly or indirectly make a loan to a Director or a director of any holding company of the Company or any of their respective close associates, enter into any guarantee or provide any security in connection with a loan made by any person to a Director or a director of any holding company of the Company or any of their respective close associates, or, if any one or more Directors hold(s) (jointly or severally or directly or indirectly) a controlling interest in another company, make a loan to that other company or enter into any guarantee or provide any security in connection with a loan made by any person to that other company.

(h) *Disclosure of interest in contracts with the Company or any of its subsidiaries*

With the exception of the office of auditor of the Company, a Director may hold any other office or place of profit with 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 for that other office or place of profit, in whatever form, in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director, officer or member of 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 or other benefits received by him as a director, officer or member of 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 in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company.

No Director or intended Director shall be disqualified by his office from contracting with the Company, 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 for any profit realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship established by it. A Director who is, in any way, materially interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the earliest meeting of the Board at which he may practically do so.

There is no power to freeze or otherwise impair any of the rights attaching to any share by reason that the person or persons who are interested directly or indirectly in that share have failed to disclose their interests to the Company.

APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND THE CAYMAN COMPANIES LAW

A Director shall not vote or be counted in the quorum on any resolution of the Board in respect of any contract or arrangement or proposal in which he or any of his close associate(s) has/have a material interest, and if he shall do so his vote shall not be counted nor shall he be counted in the quorum for that resolution, but this prohibition shall not apply to any of the following matters:

- (i) the giving of any security or indemnity to the Director or his close associate(s) in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;
- (ii) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his close associate(s) has/have himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (iii) any proposal concerning an offer of shares, debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub- underwriting of the offer;
- (iv) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries, including the adoption, modification or operation of either: (i) any employees' share scheme or any share incentive or share option scheme under which the Director or his close associate(s) may benefit; or (ii) any of a pension fund or retirement, death or disability benefits scheme which relates to Directors, their close associates and employees of the Company or any of its subsidiaries and does not provide in respect of any Director or his close associate(s) any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and
- (v) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares, debentures or other securities of the Company by virtue only of his/their interest in those shares, debentures or other securities.

2.3 Proceedings of the Board

The Board may meet anywhere in the world for the despatch of business and may adjourn and otherwise regulate its meetings as it thinks fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

2.4 Alterations to the constitutional documents and the Company's name

To the extent that the same is permissible under the Cayman Islands laws and subject to the Articles, the Memorandum and Articles of the Company may only be altered or amended, and the name of the Company may only be changed, with the sanction of a special resolution of the Company.

2.5 Meetings of members

(a) *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 by proxy or, in the case of members which are corporations, by their duly authorised representatives or by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given.

Under the Cayman Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within 15 days of being passed.

An ordinary resolution, by contrast, is 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 members which are corporations, by their duly authorised representatives or by proxy at a general meeting of which notice has been duly given.

A resolution in writing signed by or on behalf of all members shall be treated as an ordinary resolution duly passed at a general meeting of the Company duly convened and held, and where relevant as a special resolution so passed.

(b) *Voting rights and right to demand a poll*

Subject to any special rights, restrictions or privileges as to voting for the time being attached to any class or classes of shares at any general meeting: (a) on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every share which is fully paid or credited as fully paid registered in his name in the register of members of the Company, provided that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for this purpose as paid up on the share; and (b) on a show of hands every member who is present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote. 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. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he does use in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by poll save that the chairman of the meeting may, pursuant to the Listing Rules, allow a resolution to be voted on by a show of hands. Where a show of hands is allowed, before or on the declaration of the result of the show of hands, a poll may be demanded by (in each case by members present in person or by proxy or by a duly authorised corporate representative):

- (i) at least two members;
- (ii) any member or members representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or

**APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY
AND THE CAYMAN COMPANIES LAW**

- (iii) a member or members holding shares in the Company conferring a right to vote at the meeting on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Should a Clearing House or its nominee(s) be a member of the Company, such person or persons may be authorised 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 authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised in accordance with this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same rights and powers on behalf of the Clearing House or its nominee(s) as if such person were an individual member including the right to vote individually on a show of hands.

Where the Company has knowledge that any member is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

(c) *Annual general meetings*

The Company must hold an annual general meeting each year other than the year of the Company's adoption of the Articles. Such meeting must be held not more than 15 months after the holding of the last preceding annual general meeting, or such longer period as may be authorised by the Stock Exchange at such time and place as may be determined by the Board.

(d) *Notices of meetings and business to be conducted*

An annual general meeting of the Company shall be called by at least 21 days' (and not less than 20 clear business days') notice in writing, and any other general meeting of the Company shall be called by at least 14 days' (and not less than 10 clear business days') notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time, place and agenda of the meeting and particulars of the resolution(s) to be considered at that meeting and, in the case of special business, the general nature of that business.

Except where otherwise expressly stated, any notice or document (including a share certificate) to be given or issued under the Articles shall be in writing, and may be served by the Company on any member personally, by post to such member's registered address or (in the case of a notice) by advertisement in the newspapers. Any member whose registered address is outside Hong Kong may notify the Company in writing of an address in Hong Kong which shall be deemed to be his registered address for this purpose. Subject to the Cayman Companies Law and the Listing Rules, a notice or document may also be served or delivered by the Company to any member by electronic means.

Although a meeting of the Company may be called by shorter notice than as specified above, such meeting may be deemed to have been duly called if it is so agreed:

- (i) in the case of an annual general meeting, by all members of the Company entitled to attend and vote thereat; and

- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting holding not less than 95 per cent of the total voting rights in the Company.

All business transacted at an extraordinary general meeting shall be deemed special business. All business shall also be deemed special business where it is transacted at an annual general meeting, with the exception of certain routine matters which shall be deemed ordinary business.

(e) *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, and continues to be present until the conclusion of the meeting.

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 authorised 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.

(f) *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 shall be 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 shall be 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 if it were an individual member. On a poll or on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing, or if the appointor is a corporation, either under seal or under the hand of a duly authorised officer or attorney. Every instrument of proxy, whether for a specified meeting or otherwise, shall be in such form as the Board may from time to time approve, provided that it shall not preclude the use of the two-way form. Any form issued to a member for appointing a proxy to attend and vote at an extraordinary general meeting or at an annual general meeting at which any business is to be transacted shall be such as to enable the member, according to his intentions, to instruct the proxy to vote in favour of or against (or, in default of instructions, to exercise his discretion in respect of) each resolution dealing with any such business.

(g) *Members' requisition for meetings*

Extraordinary general meetings shall be convened on the requisition of one or more members holding, as 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 of the Company 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 two 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 (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.

2.6 Accounts and audit

The Board shall cause proper books of account to be kept of the sums of money received and expended by the Company, and of the assets and liabilities of the Company and of all other matters required by the Cayman Companies Law (which include all sales and purchases of goods by the Company) necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions.

The books of accounts of the Company shall be kept at the head office of the Company 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 account, book or document of the Company except as conferred by the Cayman Companies Law or ordered by a court of competent jurisdiction or authorised by the Board or the Company in general meeting.

The Board shall from time to time cause to be prepared and laid before the Company at its annual general meeting balance sheets and profit and loss accounts (including every document required by law to be annexed thereto), together with a copy of the Directors' report and a copy of the auditors' report, not less than 21 days before the date of the annual general meeting. Copies of these documents shall be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles together with the notice of annual general meeting, not less than 21 days before the date of the meeting.

Subject to the rules of the stock exchange of the Relevant Territory, the Company may send summarised financial statements to shareholders who have, in accordance with the rules of the stock exchange of the Relevant Territory, consented and elected to receive summarised financial statements instead of the full financial statements. The summarised financial statements must be accompanied by any other documents as may be required under the rules of the stock exchange of the Relevant Territory, and must be sent to those shareholders that have consented and elected to receive the summarised financial statements not less than 21 days before the general meeting.

The Company shall appoint auditor(s) to hold office until the conclusion of the next annual general meeting on such terms and with such duties as may be agreed with the Board. The auditors' remuneration shall be fixed by the Company in general meeting or by the Board if authority is so delegated by the members. The members may, at any general meeting convened and held in accordance with the Articles, remove the auditors by special resolution at any time before the expiration of the term of office and shall, by ordinary resolution, at that meeting appoint new auditors in its place for the remainder of the term.

The auditors shall audit the financial statements of the Company in accordance with generally accepted accounting principles of Hong Kong, the International Accounting Standards or such other standards as may be permitted by the Stock Exchange.

2.7 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.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide:

- (a) all dividends shall be declared and paid according to the amounts paid up on the shares in respect of which the dividend is paid, although no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share;
- (b) all dividends shall be apportioned and paid pro rata in accordance with the amount paid up on the shares during any portion(s) of the period in respect of which the dividend is paid; and
- (c) the Board may deduct from any dividend or other monies payable to any member all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

Where the Board or the Company in general meeting has resolved that a dividend should be paid or declared, the Board may resolve:

- (i) 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 members entitled to such dividend will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or
- (ii) that the members 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.

Upon the recommendation of the Board, the Company may by ordinary resolution in respect of any one particular dividend of the Company determine that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to members to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, bonus or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post. Every such cheque or warrant shall be made payable to the order of the person to whom it is sent and shall be sent at the holder's or joint holders' 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 monies 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.

APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND THE CAYMAN COMPANIES LAW

The Board may, if it thinks fit, receive from any member willing to advance the same, and either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced may pay interest at such rate (if any) not exceeding 20 per cent per annum, as the Board may decide, but a payment in advance of a call shall not entitle the member to receive any dividend or to exercise any other rights or privileges as a member in respect of the share or the due portion of the shares upon which payment has been advanced by such member before it is called up.

All dividends, bonuses or other distributions unclaimed for one year after having been declared may be invested or otherwise used 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, bonuses or other distributions unclaimed for six years after having been declared may be forfeited by the Board and, upon such forfeiture, 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.

The Company may exercise the power to cease sending cheques for dividend entitlements or dividend warrants by post if such cheques or warrants remain uncashed on two consecutive occasions or after the first occasion on which such a cheque or warrant is returned undelivered.

2.8 Inspection of corporate records

For so long as any part of the share capital of the Company is listed on the Stock Exchange, any member may inspect any register of members of the Company maintained in Hong Kong (except when the register of members is closed) without charge and require the provision to him of copies or extracts of such register in all respects as if the Company were incorporated under and were subject to the Hong Kong Companies Ordinance.

2.9 Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles concerning the rights of minority members in relation to fraud or oppression. However, certain remedies may be available to members of the Company under the Cayman Islands laws, as summarised in paragraph 3.6 of this Appendix.

2.10 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:

- (a) if the Company is wound up and the assets available for distribution among the members of the Company are more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, then the excess shall be distributed *pari passu* among such members in proportion to the amount paid up on the shares held by them respectively; and

- (b) if the Company is wound up and the assets available for distribution among the members as such are 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 on the shares held by them, respectively.

If the Company is wound up (whether the liquidation is voluntary or compelled by the court), the liquidator may, with the sanction of a special resolution and any other sanction required by the Cayman Companies Law, divide among the members in specie or kind the whole or any part of the assets of the Company, whether the assets consist of property of one kind or 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 so divided and may determine how such division shall be carried out as between the members or different classes of members and the members within each class. The liquidator may, with the like sanction, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator thinks fit, provided that no member shall be compelled to accept any shares or other property upon which there is a liability.

2.11 Subscription rights reserve

Provided that it is not prohibited by and is otherwise in compliance with the Cayman 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 the shares to be issued on the exercise of such warrants, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of such shares.

3. CAYMAN COMPANIES LAW

The Company was incorporated in the Cayman Islands as an exempted company on 2 January 2020 subject to the Cayman Companies Law. Certain provisions of the Cayman Companies Law are set out below but this section does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of the Cayman Companies Law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

3.1 Company operations

An exempted company such as the Company must conduct its operations mainly outside the Cayman Islands. An exempted company is also 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 authorised share capital.

3.2 Share capital

Under the Cayman Companies Law, a Cayman Islands company may issue ordinary, preference or redeemable shares or any combination thereof. Where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or 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

APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND THE CAYMAN COMPANIES LAW

arrangements in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation, the following:

- (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) any manner provided in section 37 of the Cayman 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.

Notwithstanding the foregoing, 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.

Subject to confirmation by the court, a company limited by shares or a company limited by guarantee and having a share capital may, if authorised to do so by its articles of association, by special resolution reduce its share capital in any way.

3.3 Financial assistance to purchase shares of a company or its holding company

There are no statutory prohibitions in the Cayman Islands on the granting of financial assistance by a company to another person for the purchase of, or subscription for, its own, its holding company's or a subsidiary's shares. Therefore, a company may provide financial assistance provided the directors of the company, when proposing to grant such financial assistance, discharge their duties of care and act in good faith, for a proper purpose and in the interests of the company. Such assistance should be on an arm's-length basis.

3.4 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 authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a member and, for the avoidance of doubt, 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 authorised to do so by its articles of association, purchase its own shares, including any redeemable shares; an ordinary resolution of the company approving the manner and terms of the purchase will be required if the articles of association do not authorise the manner and terms of such purchase. A company may not redeem or purchase its shares unless they are fully paid. Furthermore, 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. In

addition, 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 that have been purchased or redeemed by a company or surrendered to the company shall not be treated as cancelled but shall be classified as treasury shares if held in compliance with the requirements of Section 37A(1) of the Cayman Companies Law. Any such shares shall continue to be classified as treasury shares until such shares are either cancelled or transferred pursuant to the Cayman Companies Law.

A Cayman Islands company may be able to purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. Thus there is no requirement under the Cayman Islands laws that a company's memorandum or articles of association contain a specific provision enabling such purchases. The directors of a company may under the general power contained in its memorandum of association be able to buy, sell and deal in personal property of all kinds.

A subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

3.5 Dividends and distributions

Subject to a solvency test, as prescribed in the Cayman Companies Law, and the provisions, if any, of the company's memorandum and articles of association, a company may pay dividends and distributions out of its share premium account. In addition, based upon English case law which is likely to be persuasive in the Cayman Islands, dividends may be paid out of profits.

For so long as a company holds treasury shares, 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, in respect of a treasury share.

3.6 Protection of minorities and shareholders' suits

It can be expected that the Cayman Islands courts will ordinarily follow English case law precedents (particularly the rule in the case of *Foss vs. Harbottle* and the exceptions to that rule) which permit a minority member to commence a representative action against or derivative actions in the name of the company to challenge acts which are ultra vires, illegal, fraudulent (and performed by those in control of the Company) against the minority, or represent an irregularity in the passing of a resolution which requires a qualified (or special) majority which has not been obtained.

Where a company (not being a bank) is one which has 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 the affairs of the company and, at the direction of the court, to report on such affairs. In addition, any member 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.

In general, claims against a company by its members must be based on the general laws of contract or tort applicable in the Cayman Islands or be based on potential violation of their individual rights as members as established by a company's memorandum and articles of association.

3.7 Disposal of assets

There are no specific restrictions on the power of directors to dispose of assets of a company, however, the directors are expected to exercise certain duties of care, diligence and skill to the standard that a reasonably prudent person would exercise in comparable circumstances, in addition to fiduciary duties to act in good faith, for proper purpose and in the best interests of the company under English common law (which the Cayman Islands courts will ordinarily follow).

3.8 Accounting and auditing requirements

A company must cause proper records of accounts to be kept with respect to: (i) all sums of money received and expended by it; (ii) all sales and purchases of goods by it; and (iii) its assets and liabilities.

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.

If a company keeps its books of account at any place other than at its registered office or any other place within the Cayman Islands, it shall, upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2017 Revision) of the Cayman Islands, make available, in electronic form or any other medium, at its registered office copies of its books of account, or any part or parts thereof, as are specified in such order or notice.

3.9 Exchange control

There are no exchange control regulations or currency restrictions in effect in the Cayman Islands.

3.10 Taxation

Pursuant to section 6 of the Tax Concessions Law (2018 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet that:

- (a) no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciations shall apply to the Company or its operations; and
- (b) no tax be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable by the Company:
 - (i) on or in respect of the shares, debentures or other obligations of the Company; or
 - (ii) by way of withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Law (2018 Revision).

The undertaking for the Company is for a period of 20 years from January 6, 2020.

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.

3.11 Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies save for those which hold interests in land in the Cayman Islands.

3.12 Loans to directors

There is no express provision prohibiting the making of loans by a company to any of its directors. However, the company's articles of association may provide for the prohibition of such loans under specific circumstances.

3.13 Inspection of corporate records

The members of a company have no general right to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

3.14 Register of members

A Cayman Islands exempted company may maintain its principal share registrar of members and any branch registers in any country or territory, whether within or outside the Cayman Islands, as the company may determine from time to time. There is no requirement for an exempted company to make any returns of members to the Registrar of Companies in 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 member, 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 (2017 Revision) of the Cayman Islands.

3.15 Register of directors and officers

Pursuant to the Cayman Companies Law, the Company is required to maintain at its registered office a register of directors, alternate directors and officers. The Registrar of Companies shall make available the list of the names of the current directors of the Company (and, where applicable, the current alternate directors of the Company) for inspection by any person upon payment of a fee by such person. A copy of the register of directors and officers must be filed with the Registrar of Companies in the Cayman Islands, and any change must be notified to the Registrar within 30 days of any change in such directors or officers, including a change of the name of such directors or officers.

3.16 Winding up

A Cayman Islands company may be wound up by: (i) an order of the court; (ii) voluntarily by its members; or (iii) under the supervision of the court.

The court has authority to order winding up in a number of specified circumstances including where, in the opinion of the court, it is just and equitable that such company be so wound up.

A voluntary winding up of a company (other than a limited duration company, for which specific rules apply) occurs where the company resolves by special resolution that it be wound up voluntarily or where the company in general meeting resolves that it be wound up voluntarily because it is unable to pay its debt as they fall due. In the case of a voluntary winding up, the company is obliged to cease to carry on its business from the commencement of its winding up except so far as it may be beneficial for its winding up. Upon appointment of a voluntary liquidator, all the powers of the directors cease, except so far as the company in general meeting or the liquidator sanctions their continuance.

In the case of a members' voluntary winding up of a company, one or more liquidators are appointed for the purpose of winding up the affairs of the company and distributing its assets.

As soon as the affairs of a 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 the property of the company disposed of, and call a general meeting of the company for the purposes of laying before it the account and giving an explanation of that account.

When a resolution has been passed by a company to wind up voluntarily, the liquidator or any contributory or creditor may apply to the court for an order for the continuation of the winding up under the supervision of the court, on the grounds that: (i) the company is or is likely to become insolvent; or (ii) the supervision of the court will facilitate a more effective, economic or expeditious liquidation of the company in the interests of the contributories and creditors. A supervision order takes effect for all purposes as if it was an order that the company be wound up by the court except that a commenced voluntary winding up and the prior actions of the voluntary liquidator shall be valid and binding upon the company and its official liquidator.

For the purpose of conducting the proceedings in winding up a company and assisting the court, one or more persons may be appointed to be called an official liquidator(s). The court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more than one person is appointed to such office, the court shall declare whether any act required or authorised 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.

3.17 Reconstructions

Reconstructions and amalgamations may be approved by a majority in number representing 75 per cent in value of the members or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the courts. Whilst a dissenting member has the right to

express to the court his view that the transaction for which approval is being sought would not provide the members with a fair value for their shares, the courts are unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management, and if the transaction were approved and consummated, the dissenting member would have no rights comparable to the appraisal rights (that is, the right to receive payment in cash for the judicially determined value of their shares) ordinarily available, for example, to dissenting members of a United States corporation.

3.18 Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90 per cent of the shares which are the subject of the offer accept, the offeror may, at any time within two months after the expiration of that four-month period, by notice require the dissenting members to transfer their shares on the terms of the offer. A dissenting member may apply to the Cayman Islands courts within one month of the notice objecting to the transfer. The burden is on the dissenting member 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 members.

3.19 Indemnification

The Cayman Islands laws do not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, save to the extent any such provision may be held by the court to be contrary to public policy, for example, where a provision purports to provide indemnification against the consequences of committing a crime.

3.20 Economic Substance

The Cayman Islands enacted the International Tax Co-operation (Economic Substance) Law, 2018, which became effective on 1 January 2019, together with the Guidance Notes published by the Cayman Islands Tax Information Authority from time to time. The Company is required to comply with the economic substance requirements from July 1, 2019 and make an annual report in the Cayman Islands as to whether or not it is carrying on any relevant activities and if it is, it must satisfy an economic substance test.

4. GENERAL

Harney Westwood & Riegels, the Company's legal adviser on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of the Companies Law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Documents available for inspection" in Appendix V. Any person wishing to have a detailed summary of the Cayman Companies 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 GROUP**1. Incorporation of our Company**

Our Company was incorporated on January 2, 2020 in the Cayman Islands under the Cayman Companies Law as an exempted company with limited liability. Accordingly, our Company's corporate structure and Articles are subject to relevant laws of the Cayman Islands. A summary of our Articles and Memorandum of Association is set out in Appendix III to this prospectus. Our registered office is at Harneys Fiduciary (Cayman) Limited, 4/F, Harbour Place, 103 South Church Street, P.O. Box 10240, Grand Cayman KY1-1002, Cayman Islands.

Our principal place of business in Hong Kong is at 40/F, Sunlight Tower, 248 Queen's Road East, Wanchai, Hong Kong. Our Company has been registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on March 23, 2020. Ms. Fok Po Yi, a Hong Kong resident whose correspondence address is 40/F, Sunlight Tower, 248 Queen's Road East, Wanchai, Hong Kong, has been appointed as our authorized representative for the acceptance of service of process and notices in Hong Kong.

As of the date of this prospectus, our Company's headquarters was located at 4/F, No.8 Hangxing Science Park, No. 11 HePingLi East Street, Dongcheng District, Beijing, the PRC.

2. Changes in authorized and issued share capital of our Company

As of the date of incorporation, our Company had an authorized share capital of US\$50,000.0 divided into 5,000,000,000 shares with a nominal or par value of US\$0.00001 each.

The following changes in the share capital of our Company took place since its incorporation:

- (a) on January 2, 2020, upon the incorporation, our Company issued ordinary shares with par value of US\$0.00001 each in the following manner:
 - (i) one ordinary share to Harneys Fiduciary (Cayman) Limited, an Independent Third Party, which was subsequently transferred to Cresc Chorus at a consideration at par value on the same day;
 - (ii) 56,334,999 ordinary shares to Cresc Chorus;
 - (iii) 8,265,000 ordinary shares to Green Particle; and
 - (iv) 5,000,000 ordinary shares to Smooth Ebony;
- (b) on March 4, 2020, our Company issued 18,050,000 Series A Preferred Shares and 1,020,408 Series C-2 Preferred Shares to Perfect World Interactive;
- (c) on March 4, 2020, our Company issued 12,530,000 Series B Preferred Shares and 1,020,408 Series C-2 Preferred Shares to Image Frame;

- (d) on March 4, 2020, Cresc Chorus transferred 4,500,000 ordinary shares to each of Perfect World Interactive and Image Frame, totalling 9,000,000 ordinary shares. Such shares have been re-designated into Series C-1 Preferred Shares; and
- (e) immediately following the completion of the Capitalization Issue and the Global Offering without taking into account any Shares which may be issued upon the exercise of Over-allotment Option, the issued share capital of our Company will be US\$50,000 divided into 5,000,000,000 Shares of US\$0.00001 each, 787,400,000 Shares will be issued fully paid or credited as fully paid, and 4,212,600,000 Shares will remain unissued.

Save as disclosed above, there has been no other alteration in the share capital of our Company since its incorporation.

3. Changes in share capital of our subsidiaries and Consolidated Affiliated Entities

Our subsidiaries and Consolidated Affiliated Entities are set out in the Accountant's Report in Appendix I to this prospectus.

The following subsidiaries and Consolidated Affiliated Entities have been established/incorporated within two years immediately preceding the date of this prospectus:

Name of subsidiary/ Consolidated Affiliated Entities	Place of establishment/ incorporation	Date of establishment/ incorporation	Issued and paid in capital/registered capital
Archosaur Entertainment	BVI	January 7, 2020	US\$50,000
Famous Game	Hong Kong	August 5, 2019	US\$10,000,000
Chengdu Fantasy Mermaid	PRC	December 10, 2019	RMB10,000,000

Saved as disclosed in "History and Reorganization — Our Corporate History" in this prospectus, there has been no alteration in the share capital of any of our subsidiaries and the Consolidated Affiliated Entities within the two years immediately preceding the date of this prospectus.

4. Resolutions in writing of the shareholders of our Company passed on June 24, 2020

The following resolutions were passed by the shareholders of our Company in writing on June 24, 2020, subject to the conditions of the Global Offering as set out in this prospectus having been fulfilled and the obligations of the Underwriters under the Underwriting Agreements having become unconditional (including, if relevant, as a result of the waiver of any condition(s) thereunder by the Sole Global Coordinator for itself and on behalf of the Underwriter(s) and such obligations not having been terminated in accordance with their respective terms:

- (a) our Company approved and adopted the Memorandum and Articles of Association, which will come into effect upon Listing;

- (b) the Listing, the Global Offering and the Over-allotment Option were approved, subject to such modifications as our Directors (or any committee established by the Board) may in their sole discretion determine, and our Directors or any committee established by the Board were authorised to do all such things as they consider necessary to give effect to the Listing, the Global Offering and the Over-allotment Option;
- (c) a general unconditional mandate was granted to our Directors to, *inter alia*, allot, issue and deal with Shares or securities convertible into Shares or options, warranties or similar rights to subscribe for Shares or such convertible securities and to make or grant general offers, agreements or options which might require the exercise of such powers, provided that the aggregate number of Shares allotted or agreed to be allotted by the Directors other than pursuant to (a) the exercise of any subscription rights or warrants which may be issued by our Company from time to time; (b) any scrip dividend scheme or similar arrangement providing for the allotment of Shares in lieu of the whole or part of a dividend on Shares in accordance with our Articles; (c) a specific authority granted by the shareholders in general meeting, which shall not exceed the aggregate of (i) 20% of the total number of the Shares in issue upon completion of the Global Offering (excluding any Shares to be issued upon the Over-allotment Option); and (ii) the total number of the Shares repurchased by our Company (if any) under the general mandate to repurchase Shares referred to in paragraph (d) below, such mandate to remain in effect during the period from the passing of the resolution until the earliest of the conclusion of our earliest annual general meeting, the expiration of the period within which we are required by any applicable law of the Cayman Islands or the Articles to hold our next annual general meeting or the date on which the authority given to our Directors is renewed, varied or revoked by an ordinary resolution of the shareholders at a general meeting of our Company (the “**Applicable Period**”);
- (d) a general unconditional mandate was granted to our Directors to exercise all the powers of our Company to repurchase Shares with a total number of not more than 10% of the Shares in issue upon completion of the Global Offering (excluding any Shares to be issued upon the Over-allotment Option), such mandate to remain effect during the Applicable Period; and
- (e) the general unconditional mandate mentioned in paragraph (c) above to be extended by the addition to the aggregate number of the Shares which may be allotted and issued by our Directors pursuant to such general mandate of an amount representing the aggregate number of the Shares purchased by our Company pursuant to the repurchase mandate referred to in paragraph (d) above, provided that such extended amount shall not exceed 10% of the aggregate number of the Shares in issue upon completion of the Global Offering (excluding any Shares to be issued upon the Over-allotment Option).

5. Corporate Reorganization

For details of the Reorganization, see “History and Reorganization.”

B. FURTHER INFORMATION ABOUT OUR BUSINESS**1. Summary of material contracts**

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by our Company or any member of our Group within two years preceding the date of this prospectus and are or may be material:

- (a) the share transfer agreement dated August 24, 2018, entered into between Perfect World and Beijing Loong for the transfer of equity interest in Tianjin Loong;
- (b) the shareholders' agreement dated July 30, 2018, entered into between, among others, Perfect World, Linzhi Lichuang, Mr. Li Qing, Mr. Zhang Yu, Mr. Xiang Nan and Mr. Bai Wei in respect of Tianjin Loong;
- (c) the supplemental shareholders' agreement dated January 1, 2019, entered into between, among others, Tianjin Loong, Perfect World, Linzhi Lichuang, Ningbo Longren, Mr. Li Qing, Mr. Zhang Yu, Mr. Xiang Nan and Mr. Bai Wei in respect of Tianjin Loong;
- (d) the termination agreement dated March 10, 2020, entered into between, among others, Tianjin Loong, Perfect World, Linzhi Lichuang, Ningbo Longren, Mr. Li Qing, Mr. Zhang Yu, Mr. Xiang Nan and Mr. Bai Wei, for the termination of the Onshore Shareholders Agreement;
- (e) the equity transfer agreement dated December 31, 2019, entered into between Tianjin Loong and Liu Yongji in respect of the transfer of 2% of the equity interest in Beijing Fantasy Mermaid at the consideration of RMB0.2 million;
- (f) the equity transfer agreement dated February 20, 2020, entered into between Tianjin Loong, Liu Yongji and Famous Game in respect of the transfer of 100% of the equity interest in Beijing Fantasy Mermaid at the consideration of RMB10.0 million;
- (g) the business contract and personnel transfer agreement dated January 16, 2020, entered into between, among others, Tianjin Loong and Beijing Fantasy Mermaid for the transfer of various business contracts and personnel;
- (h) the assets transfer agreement dated January 16, 2020, entered into between Tianjin Loong and Beijing Fantasy Mermaid in respect of the transfer of various fixed assets;
- (i) the assets transfer agreement dated January 16, 2020, entered into between Huai'an Loong and Beijing Fantasy Mermaid in respect of the transfer of various fixed assets;
- (j) the assets transfer agreement dated January 16, 2020, entered into between Tianjin Loong and Beijing Fantasy Mermaid in respect of the transfer of software copyrights;
- (k) the share transfer agreement dated February 3, 2020, entered into between Tianjin Loong and Archosaur Entertainment, pursuant to which Tianjin Loong agreed to transfer all of its shares in Famous Game to Archosaur Entertainment at a consideration of US\$1.0;

- (l) the share transfer agreement dated March 4, 2020, entered into between Tianjin Loong and Archosaur Entertainment, pursuant to which Tianjin Loong agreed to transfer all of its shares in Famous Heart to Archosaur Entertainment at a consideration of approximately RMB121.4 million;
- (m) the share purchase agreement dated March 4, 2020, entered into between, among others, Cresc Chorus, Image Frame and our Company, pursuant to which Cresc Chorus agreed to sell to Image Frame, and Image Frame agreed to purchase, 4,500,000 shares of our Company at a consideration of RMB220.0 million;
- (n) the Offshore Share Subscription Agreement;
- (o) the Offshore Shareholders Agreement;
- (p) the Exclusive Business Cooperation Agreement, as further described in “Contractual Arrangements;”
- (q) the Exclusive Option Agreement, as further described in “Contractual Arrangements;”
- (r) the Equity Pledge Agreement, as further described in “Contractual Arrangements;”
- (s) the Powers of Attorney, as further described in “Contractual Arrangements;”
- (t) the cornerstone investment agreement dated June 26, 2020, entered into among our Company, GIC Private Limited and the Sole Sponsor, as further described in “Cornerstone Investors;”
- (u) the cornerstone investment agreement dated June 26, 2020, entered into among our Company, Zilong Game Limited and the Sole Sponsor, as further described in “Cornerstone Investors;”
- (v) the cornerstone investment agreement dated June 26, 2020, entered into among our Company, SNK Corporation and the Sole Sponsor, as further described in “Cornerstone Investors;”
- (w) the cornerstone investment agreement dated June 26, 2020, entered into among our Company, Cosmic Blue Investments Limited and the Sole Sponsor, as further described in “Cornerstone Investors;”
- (x) the cornerstone investment agreement dated June 26, 2020, entered into among our Company, Soft-World International Corporation and the Sole Sponsor, as further described in “Cornerstone Investors;” and
- (y) the Hong Kong Underwriting Agreement.

2. Intellectual Property Rights



(a) Trademarks

(i) Registered trademarks

As of the Latest Practicable Date, we had registered the following trademarks which we consider to be material to our business:

No.	Trademark	Class	Registered owner	Place of registration	Registration number	Expiry date
1.	六龙御天	9	Tianjin Loong	PRC	16970417	July 20, 2026
		41		PRC	16970416	July 20, 2026
		42		PRC	20025623	July 6, 2027
2.	六龙争霸	9	Tianjin Loong	PRC	17886898	October 20, 2026
		41		PRC	17886897	October 20, 2026
		42		PRC	17886896	October 20, 2026
3.	六龙御天	9	Tianjin Loong	Malaysia	2016055597	March 30, 2026
		41		Malaysia	2016055600	March 30, 2026
4.	六龙御天	9	Tianjin Loong	Singapore	40201605612V	March 27, 2026
		41		Singapore	40201605614W	March 27, 2026
5.		9	Tianjin Loong	Thailand	1050430	July 6, 2026
		41		Thailand	1050431	July 6, 2026
		42		Thailand	1050432	July 6, 2026
6.		9	Tianjin Loong	Taiwan	01773519	May 31, 2026
		41		Taiwan	01773519	May 31, 2026
		42		Taiwan	01773519	May 31, 2026
7.	Lục Long Tranh Bá 3D	9	Tianjin Loong	Vietnam	4201609097	April 4, 2026
		41		Vietnam	4201609097	April 4, 2026
8.	천명	41	Tianjin Loong	South Korea	410373272	September 29, 2026
9.	御剑情缘	9	Tianjin Loong	PRC	18201471	December 6, 2026
		41		PRC	18201470	December 6, 2026
		42		PRC	18201472	December 6, 2026
10.	御剑情缘	16	Tianjin Loong	PRC	22886738	February 27, 2028
		25		PRC	22886763	February 27, 2028
		28		PRC	22886791	February 27, 2028
		35		PRC	22886515	February 27, 2028
11.	御剑情缘	9	Tianjin Loong	PRC	22902822	February 27, 2028
		38		PRC	22902951	February 27, 2028
		41		PRC	22902854	February 27, 2028

No.	Trademark	Class	Registered owner	Place of registration	Registration number	Expiry date
12.	御劍情緣	9	Tianjin Loong	Taiwan	105050509	April 30, 2027
		41		Taiwan	105050835	April 30, 2027
		42		Taiwan	105050839	April 30, 2027
13.		9	Tianjin Loong	Taiwan	105050504	April 30, 2027
		41		Taiwan	105050833	April 30, 2027
		42		Taiwan	105050836	April 30, 2027
14.	御劍情緣 御劍情緣	9	Tianjin Loong	Hong Kong	303850434	July 25, 2026
		41		Hong Kong	303850434	July 25, 2026
		42		Hong Kong	303850434	July 25, 2026
15.		9	Tianjin Loong	Singapore	40201706443U	April 12, 2027
		41		Singapore	40201706444S	April 12, 2027
		42		Singapore	40201706445V	April 12, 2027
16.		9	Tianjin Loong	Malaysia	2017057400	April 28, 2027
		41		Malaysia	2017057405	April 28, 2027
		42		Malaysia	2017057414	April 28, 2027
17.		9	Tianjin Loong	Thailand	170128310	August 9, 2027
		41		Thailand	170128311	August 9, 2027
		42		Thailand	170128312	August 9, 2027
18.		9	Tianjin Loong	South Korea	40201763419	April 16, 2028
		41		South Korea	40201763419	April 16, 2028
19.	蜀山缥缈录	9	Tianjin Loong	PRC	18576851	January 20, 2027
		41		PRC	18576850	January 20, 2027
		42		PRC	18576849	January 20, 2027
20.	蜀山玄真录	9	Tianjin Loong	PRC	19333217	April 20, 2027
		41		PRC	19333216	April 20, 2027
		42		PRC	19333215	April 20, 2027
21.		9	Tianjin Loong	Hong Kong	303867977	August 11, 2026
		41		Hong Kong	303867977	August 11, 2026
		42		Hong Kong	303867977	August 11, 2026
22.	权力与荣耀	9	Tianjin Loong	PRC	21108682	October 27, 2027
		41		PRC	21108654	October 27, 2027
		42		PRC	21108689	October 27, 2027
23.		9	Tianjin Loong	Hong Kong	304220414	July 26, 2027
		41		Hong Kong	304220414	July 26, 2027
		42		Hong Kong	304220414	July 26, 2027
24.		9	Tianjin Loong	Taiwan	01908849	April 15, 2028
		41		Taiwan	01912809	April 30, 2028
		42		Taiwan	01912858	April 30, 2028

No.	Trademark	Class	Registered owner	Place of registration	Registration number	Expiry date
25.		9	Tianjin Loong	South Korea	401394438	September 5, 2028
		41		South Korea	401394438	September 5, 2028
		42		South Korea	401394438	September 5, 2028
26.	舰队联盟	9	Tianjin Loong	PRC	19214028	April 13, 2027
		41		PRC	19214027	April 13, 2027
		42		PRC	19214026	April 13, 2027
27.	舰队争霸	9	Tianjin Loong	PRC	19291985	April 20, 2027
		41		PRC	19291984	April 20, 2027
		42		PRC	19291983	April 20, 2027
28.	海战联盟	9	Tianjin Loong	PRC	19291979	April 20, 2027
		41		PRC	19291978	April 20, 2027
29.	舰炮与鱼雷	9	Tianjin Loong	PRC	20158953	July 20, 2027
		41		PRC	20158952	July 20, 2027
		42		PRC	20158951	July 20, 2027
30.	龙族幻想	9	Huai'an Loong	PRC	23202957	March 6, 2028
		41	Beijing Branch	PRC	23203010	August 6, 2029
		41		PRC	28363940	February 20, 2029
		42		PRC	23203339	March 6, 2028
31.	龙族幻想	9	Famous Heart	Taiwan	107077796	May 31, 2029
		41		Taiwan	107077796	May 31, 2029
		42		Taiwan	107077796	May 31, 2029
32.	龙族幻想	9	Tianjin Loong	Hong Kong	304805064	January 16, 2029
		41		Hong Kong	304805064	January 16, 2029
		42		Hong Kong	304805064	January 16, 2029
33.	龙族幻想	9	Tianjin Loong	Singapore	40201901969W	January 28, 2029
		41		Singapore	40201901969W	January 28, 2029
		42		Singapore	40201901969W	January 28, 2029
34.		9	Famous Heart	Taiwan	108044338	December 15, 2029
		41		Taiwan	108044338	December 15, 2029
		42		Taiwan	108044338	December 15, 2029
35.	新王崛起	9	Huai'an Loong	PRC	36054499	September 6, 2029
		41		PRC	36055470	September 6, 2029
		42		PRC	36050437	September 6, 2029
36.	铁甲荣光	9	Huai'an Loong	PRC	36054516	September 13, 2029
		41		PRC	36070644	September 6, 2029
		42		PRC	36071466	September 6, 2029
37.	雄主	9	Huai'an Loong	PRC	36052261	September 13, 2029
		41		PRC	36051480	September 6, 2029

No.	Trademark	Class	Registered owner	Place of registration	Registration number	Expiry date
38.	驯龙猎人	9	Huai'an Loong	PRC	37482979	January 20, 2030
		41		PRC	37473954	January 13, 2030
		42		PRC	37483040	January 13, 2030
39.	丛林物语	9	Huai'an Loong	PRC	37479911	January 20, 2030
		41		PRC	37483013	January 13, 2030
		42		PRC	37467663	January 13, 2030
40.	猎龙物语	9	Huai'an Loong	PRC	37403440	November 27, 2029
		41		PRC	37412692	December 6, 2029
		42		PRC	37407295	December 6, 2029
41.		9	Famous Game	Hong Kong	305135526	December 5, 2029
		35				
		41				
		42				
42.	Zloong Games	9	Famous Game	Hong Kong	305145246	December 16, 2029
		35				
		41				
		42				
43.	Archosaur Games	9	Famous Game	Hong Kong	305145255	December 16, 2029
		35				
		41				
		42				
44.	 祖龙娱乐	9	Famous Game	Hong Kong	305145264	December 16, 2029
		41				
		42				
		42				
45.	烽云志	9	Huai'an Loong	PRC	40321502	March 27, 2030
		41		PRC	40332700	March 27, 2030
		42		PRC	40314960	March 27, 2030

(ii) Trademarks applications pending

As of the Latest Practicable Date, we have applied for the registration of the following trademarks which we consider to be material to our business:

No.	Trademark	Class	Applicant	Place of registration	Registration number	Date of application
1.	Dragon Raja	9	Tianjin Loong	the U.S.	88403360	April 27, 2019
		41		the U.S.	88403363	April 27, 2019
		42		the U.S.	88403366	April 27, 2019
2.	Dragon Raja	9	Tianjin Loong	Malaysia	TM2019019610	May 31, 2019
		41		Malaysia	TM2019019612	May 31, 2019
		42		Malaysia	TM2019019615	May 31, 2019
3.	Dragon Raja	9	Tianjin Loong	Canada	1963898	May 21, 2019
		41		Canada	1963898	May 21, 2019
		42		Canada	1963898	May 21, 2019
4.	Dragon Raja	9	Tianjin Loong	Thailand	190135085	September 11, 2019
		41		Thailand	190135086	September 11, 2019
		42		Thailand	190135087	September 11, 2019

(b) Patents**(i) Registered patents**

As of the Latest Practicable Date, we do not have any registered patents.

(ii) Patent applications pending

As of the Latest Practicable Date, we have applied for the registration of following patents which we consider to be material to our business:

No.	Patent	Class	Applicant	Place of application	Application number	Date of application
1.	A code generation method and supporting tool for managing game configuration (一種管理遊戲配置的代碼生成方法及配套工具)	Invention	Tianjin Loong	PRC	201810217569.1	March 16, 2018
2.	A software development assistance system based on Lua script language (一種基於Lua腳本語言的軟件開發輔助系統)	Invention	Tianjin Loong	PRC	201710787612.3	September 4, 2017
3.	A packaging method for update files based on Unity engine (一種基於Unity引擎的更新文件打包方法及打包工具)	Invention	Tianjin Loong	PRC	201710787597.2	September 4, 2017

(c) Domain Names

As of the Latest Practicable Date, we have registered the following domain name which we consider to be material to our business:

No.	Domain name	Registered owner	Date of registration	Expiry date
1.	zulong.com	Tianjin Loong	August 18, 2004	August 17, 2023

(d) Copyrights

As of the Latest Practicable Date, we have registered the following copyrights which we are consider to be material to our business:

(i) Software copyrights

No.	Name of Copyright	Copyright owner	Version	Copyright registration number	Place of registration	Registration date
1.	Loong <i>Naval Creed</i> Mobile Platform Game Software V1.0 (祖龍《戰艦聯盟》移動平台遊戲軟件V1.0)	Tianjin Loong	V1.0	2016SR087431	PRC	April 26, 2016
2.	Loong <i>Craft</i> International Edition Mobile Platform Game Software V1.0 (《六龍御天國際版》移動平台遊戲軟件V1.0)	Tianjin Loong	V1.0	2016SR183051	PRC	July 15, 2016
3.	Loong <i>Sky Century</i> Mobile Platform Game Software V1.0 (祖龍《天空紀元》移動平台遊戲軟件V1.0)	Huai'an Loong	V1.0	2017SR087625	PRC	March 22, 2017
4.	Loong <i>King of Kings/World of Kings</i> 3D Mobile Platform Game Software V1.0 (祖龍《萬王之王3D》移動平台遊戲軟件V1.0)	Huai'an Loong	V1.0	2017SR090409	PRC	March 24, 2017
5.	Loong <i>Nirvana in Fire II</i> Mobile Platform Game Software V1.0 (祖龍《瑯琊榜：風起長林》移動平台遊戲軟件V1.0)	Huai'an Loong	V1.0	2017SR090471	PRC	March 24, 2017
6.	<i>King of Kings/World of Kings</i> 3D OL Online Game Platform Software V1.0 (《萬王之王3D OL》網絡平台遊戲軟件V1.0)	Huai'an Loong	V1.0	2017SR415874	PRC	August 1, 2017

No.	Name of Copyright	Copyright owner	Version	Copyright registration number	Place of registration	Registration date
7.	<i>Aura Kingdom</i> Mobile Platform Game Software V1.0 (《幻想神域》移動平台遊戲軟件V1.0)	Huai'an Loong	V1.0	2018SR195194	PRC	March 22, 2018
8.	<i>Loong Eternal Night</i> Mobile Platform Game Software V1.0 (祖龍《迷失之夜》移動平台遊戲軟件V1.0)	Tianjin Loong	V1.0	2018SR324748	PRC	May 10, 2018
9.	<i>Loong Dragon Raja</i> Mobile Platform Game Software V1.0 (祖龍《龍族》移動平台遊戲軟件V1.0)	Huai'an Loong	V1.0	2018SR495016	PRC	June 28, 2018
10.	<i>Loong Legend of the Three Kingdoms: The Rise of the New King</i> Mobile Game Software V1.0 (祖龍《三國群英傳：新王崛起》移動遊戲軟件V1.0)	Huai'an Loong	V1.0	2019SR0105038	PRC	January 29, 2019
11.	<i>Loong The Noah Star</i> Mobile Game Software V1.0 (祖龍《諾亞之心》移動遊戲軟件V1.0)	Huai'an Loong	V1.0	2019SR0783225	PRC	July 29, 2019
12.	<i>Loong Fantasy Eleven</i> ⁽¹⁾ Mobile Game Software V1.0 (祖龍《足球夢工廠》移動遊戲軟件V1.0)	Tianjin Loong	V1.0	2019SR0948736	PRC	September 11, 2019
13.	<i>Loong Craft</i> Mobile Platform Game Software V1.0 (《六龍御天》移動平台遊戲軟件V1.0)	Beijing Mermaid	V1.0	2020SR0145839	PRC	February 18, 2020

Notes:

(1) The game was renamed as *Glorious Eleven* (足球夢工廠).

No.	Name of Copyright	Copyright owner	Version	Copyright registration number	Place of registration	Registration date
14.	<i>Loong Craft</i> Mobile Platform Game Software V2.0 (祖龍《六龍爭霸》移動平台遊戲軟件V2.0)	Tianjin Loong	V2.0	2020SR0193982	PRC	February 28, 2020
15.	<i>Loong Legend of Nine Tails Fox</i> Mobile Platform Game Software V1.0 (祖龍《青丘狐傳說》移動平台遊戲軟件V1.0)	Tianjin Loong	V1.0	2020SR0193980	PRC	February 28, 2020
16.	<i>Loong Love & Sword</i> Mobile Platform Game Software V1.0 (祖龍《御劍情緣》移動平台遊戲軟件V1.0)	Tianjin Loong	V1.0	2020SR0193979	PRC	February 28, 2020
17.	<i>Power and Honor</i> Mobile Platform Game Software V1.0 (《權力與榮耀》移動平台遊戲軟件V1.0)	Tianjin Loong	V1.0	2020SR0193981	PRC	February 28, 2020
18.	<i>Loong The Castle In The Sky</i> Mobile Platform Game Software V1.0 (祖龍《九州天空城》移動平台遊戲軟件V1.0)	Huai'an Loong	V1.0	2020SR0227017	PRC	March 9, 2020
19.	<i>Dragon Raja</i> Mobile Platform Game Software V1.0 (龍族幻想移動平台遊戲軟件V1.0)	Huai'an Loong	V1.0	2020SR0227006	PRC	March 9, 2020

(ii) *Text copyrights*

No.	Name of Copyright	Copyright owner	Copyright registration number	Place of registration	Registration date
1.	<i>Gao Xiao Li</i> Emoji Pack (高小狸表情包)	Tianjin Loong	國作登字-2016-F-00216583	PRC	April 8, 2016
2.	<i>Xiao Hui</i> Emoji Pack (小灰表情包)	Tianjin Loong	國作登字-2016-L-00274065	PRC	August 9, 2016
3.	Zulong Entertainment (祖龍娛樂)	Tianjin Loong	國作登字-2020-F-01023499	PRC	April 24, 2020

C. FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

1. Disclosure of Interests

(a) *Interests and short positions of the Directors and the chief executives*

Immediately following completion of the Capitalization Issue and the Global Offering (assuming that the Over-Allotment Option is not exercised), so far as our Directors are aware, the interests or short positions of our Directors and chief executives in our Shares, underlying shares and debentures of our Company and our associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to our Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to Section 352 of the SFO, to be recorded in the register referred to therein, or which will be required, pursuant to the Model Code of Securities Transactions by Directors of the Listed Issuers as set out in Appendix 10 to the Listing Rules, to be notified to our Company and the Hong Kong Stock Exchange, in each case once our Shares are listed, will be as follows:

Name of Director	Capacity/Nature of interest	Number of Shares held ⁽¹⁾	Approximate percentage of issued share capital ⁽²⁾
Mr. Li Qing	Interest of controlled corporation ⁽³⁾	278,329,802	35.35%
Mr. Bai Wei	Interest of controlled corporation ⁽⁴⁾	15,447,304	1.96%

Notes:

(1) All interest stated are long positions.

- (2) The calculation is based on the total number of 787,400,000 Shares in issue immediately after the completion of the Capitalization Issue and the Global Offering (assuming that the Over-allotment Option is not exercised).
- (3) LuckQ is wholly-owned by Mr. Li Qing. Accordingly, Mr. Li Qing is deemed to be interested in such number of Shares held by LuckQ for the purpose of Part XV of the SFO.
- (4) Wade Data is wholly-owned by Mr. Bai Wei. Accordingly, Mr. Bai Wei is deemed to be interested in such number of Shares held by Wade Data Services Limited for the purpose of Part XV of the SFO.

(b) *Interests of the substantial Shareholders*

Save as disclosed in the section headed “Substantial Shareholders” in this prospectus, our Directors are not aware of any other person, not being a Director or chief executive of our Company, who has an interest or short position in the Shares or the underlying Shares which, once the Shares are listed, would fall to be disclosed to our Company and the Hong Kong Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO, or who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company.

2. Particulars of service contracts

Each of our executive Directors and non-executive Directors, namely Mr. Li Qing, Mr. Bai Wei, Ms. Liu Ming and Mr. Yan Xinguang, has entered into a service agreement with our Company with an initial term of three years commencing from the Listing Date, and will continue thereafter until terminated by not less than three months’ notice in writing served by either party on the other (subject always to re-election as and when required under the Memorandum and Articles of Association).

Each of our executive Directors and non-executive Director are entitled to their respective basic salary set out below.

Each of our independent non-executive Directors will enter into a letter of appointment with our Company. The terms and conditions of each of such letters of appointment are similar in all material respects. Each of our independent non-executive Directors is appointed with an initial term of three years commencing from the Listing Date subject to termination in certain circumstances as stipulated in the relevant letters of appointment.

Save as aforesaid, none of our Directors has or is proposed to have a service contract with our Company or any members of our Group (other than contracts expiring or determinate by the employer within one year without the payment of compensation (other than statutory compensation)).

3. Director’s Remuneration

The aggregate remuneration (including fees, salaries, contributions to pension schemes, share-based compensation expenses, discretionary bonuses, housing and other allowances and other benefits in kind) incurred for each of the three years ended December 31, 2019 was approximately RMB17.2 million, RMB3.8 million and RMB4.1 million, respectively.

Save as the disclosed in this prospectus, no other amounts have been paid or are payable by any member of our Group to our Directors for each of the three years ended December 31, 2019.

Pursuant to the existing arrangements that currently in force as of the date of this prospectus, the amount of remuneration (including benefits in kind but excluding discretionary bonuses) payable to our Directors by our Company for the year ending December 31, 2020 is estimated to be approximately RMB4.8 million in aggregate.

4. Agent fees or commissions received

Save as disclosed in this prospectus, none of our Directors nor any of the parties listed in “— E. Other Information — 8. Qualifications of experts” in this appendix had received any commissions, discounts, agency fees, brokerages or other special terms in connection with the issue or sale of any capital of our Company or any member of our Group within the two years preceding the date of this prospectus.

5. Disclaimers

Save as disclosed in this prospectus:

- (a) none of our Directors has any interest or short position in the shares, underlying shares and debentures of our Company or our associated incorporation (within the meaning of Part XV of the SFO) which will have to be notified to us and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or will be required, pursuant to the Model Code for Securities Transactions by Directors and Listed Companies to be notified to us and the Hong Kong Stock Exchange, in each case once our Shares are listed on the Hong Kong Stock Exchange;
- (b) so far as is known to our Directors, no person has an interest or short position in the Shares and underlying Shares which would fall to be disclosed to us and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or is, directly or indirectly, interest 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;
- (c) none of our Directors nor any of the parties listed in “— E. Other Information — 8. Qualifications of experts” in this appendix is interested in our promotion, or in any assets which have, within the two years immediately preceding the date of this prospectus, been acquired or disposed of by or leased to our Company or any member of our Group, or are proposed to be acquired or disposed of by or leased to our Company or any member of our Group;
- (d) save in connection with the Underwriting Agreements, none of our Directors nor any of the parties listed in “— E. Other Information — 8. 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 the business of our Group;
- (e) save in connection with the Underwriting Agreements, none of the parties listed in “— E. Other Information — 8. Qualifications of experts” in this appendix: (i) is interested legally or beneficially in any of our Shares or any shares in 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; and

- (f) none of our Directors or their close associates (as defined under the Listing Rules) or any of our Shareholders (who to the knowledge of our Directors owns more than 5% of our issued share capital) has any interest in our five largest suppliers or our five largest customers.

D. RSU SCHEME

The following is a summary of the principal terms of the RSU Scheme approved and adopted by a resolution of our Directors on April 1, 2020. The RSU Scheme is not subject to the provisions of Chapter 17 of the Listing Rules as the RSU Scheme does not involve the grant of options by our Company to subscribe for new Shares.

1. Purpose of the RSU scheme

The purpose of the RSU Scheme is to incentivize our directors, senior management and employees for their contribution to our Group, to attract, motivate and retain skilled and experienced personnel to strive for the future development and expansion of our Group by providing them with the opportunity to own equity interests in our Company.

2. RSUs

Each RSU represents one underlying Share (assuming the Global Offering is completed). Therefore, RSU gives participant(s) (the “**RSU Participant(s)**”) of the RSU Scheme a conditional right to obtain Shares, less any tax, stamp duty and other charges applicable, as determined by our Board in its absolute discretion when the RSU is vested. A RSU may include, if so specified by our Board in its entire discretion, cash and non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions in respect of those Shares.

3. Participants in the RSU scheme

Persons eligible to receive RSUs under the RSU Scheme include directors, senior management and existing employees or officers of our Company or any member of our Group (the “**RSU Eligible Persons**”). Our Board selects the RSU Eligible Persons to receive RSUs under the RSU Scheme at its discretion.

4. Term of the RSU scheme

The RSU Scheme will be valid and effective for a period of ten (10) years, commencing from the adoption date of the RSU Scheme, being April 1, 2020 (unless it is terminated earlier in accordance with its terms) (the “**RSU Scheme Period**”) after which period no further RSUs will be granted, but the provisions of the RSU Scheme shall in all other respects remain in full force and effect and RSUs that are granted during the RSU Scheme Period may continue to be exercisable in accordance with their terms of issue.

5. Grant and acceptance

(i) *Making an offer*

An offer to grant a RSU will be made to a RSU Eligible Person selected by our Board (the “**RSU Selected Person**”) by a letter, in such form as our Board may determine (the “**RSU Grant Letter**”). The RSU Grant Letter will specify the RSU Selected Person’s name, the manner of acceptance of the RSU, the number of RSUs granted and the number of underlying Shares represented by the RSUs, the vesting criteria and conditions, the vesting schedule, the exercise price of the RSUs (where applicable) and such other details as our Board considers necessary and are not inconsistent with the RSU Scheme, and will require the RSU Selected Person to undertake to hold the RSU on the terms on which it is granted and to be bound by the provisions of the RSU Scheme.

(ii) *Acceptance of an offer*

A RSU Selected Person may accept an offer of the grant of RSUs in such manner as set out in the RSU Grant Letter. Once accepted, the RSUs are deemed to be granted from the date of the RSU Grant Letter (the “**RSU Grant Date**”).

(iii) *Restrictions on Grants*

Our Board may not grant any RSUs to any RSU Selected Persons in any of the following circumstances:

- the requisite approvals for the grant from any applicable regulatory authorities have not been obtained;
- the securities laws or regulations require that a prospectus or other offering documents be issued in respect of the grant of the RSUs or in respect of the RSU Scheme, unless our Board determines otherwise;
- where granting the RSUs would result in a breach of any applicable laws, rules or regulations by our Company, any member of our Group or any of their directors; or
- where such grant of any RSUs would result in exceeding the maximum number of RSU under the RSU Scheme.

6. Maximum number of RSUs under the RSU Scheme

The maximum number of RSUs that may be granted under the RSU Scheme in aggregate (excluding RSUs that have lapsed or been cancelled in accordance with the rules of the RSU Scheme) shall not exceed 5,000,000, subject to any adjustment pursuant to any capitalization issue or capital restructuring.

7. Rights attached to RSUs

A RSU Participant does not have any contingent interest in any Shares underlying the RSUs unless and until the RSUs are vested and exercised by the RSU Participant. Further, a RSU Participant may not exercise voting rights in respect of the Shares underlying the RSUs prior to the vesting and exercise of such RSUs. Prior to the vesting and exercise of such RSUs, the RSU Trustee shall exercise the voting rights attached to such Shares underlying the RSUs independent from our Company, any connected

person of our Company and its/his/her respective close associate. Unless otherwise specified by our Board in its entire discretion in the RSU Grant Letter, a RSU Participant does not have any rights to any cash or non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions from any Shares underlying the RSUs.

8. Rights attached to Shares

Any Shares transferred to a RSU Participant in respect of any RSUs will be subject to all the provisions of the Articles and will rank *pari passu* with the fully paid Shares in issue on the date of the transfer or, if that date falls on a day when the register of members of our Company is closed, the first day of the reopening of the register of members. Accordingly such Shares will entitle the holder all dividends or other distributions paid or made on or after the date of the transfer or, if that date falls on a day when the register of members of our Company is closed, the first day of the reopening of the register of members.

9. Assignment of RSUs

The RSUs granted pursuant to the RSU Scheme are personal to each RSU Participant, and are not assignable. RSU Participants are prohibited from selling, transferring, assigning, charging, mortgaging, encumbering, hedging or creating any interest in favor of any other person over or in relation to any property held by the RSU Trustee (as defined in paragraph 11 below) on trust for the RSU Participants, the RSUs, or any interest or benefits therein.

10. Vesting of RSUs

Our Board can determine the vesting criteria, conditions and the time schedule for the vesting of the RSUs and the same shall be stated in the RSU Grant Letter.

Within a reasonable time after the vesting criteria, conditions and time schedule have been reached, fulfilled, satisfied or waived, we will send a vesting notice (the “**Vesting Notice**”) to each of the relevant RSU Participants. The Vesting Notice will confirm the extent to which the vesting criteria, conditions and time schedule have been reached, fulfilled, satisfied or waived, and the number of Shares (and, if applicable, the cash or non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions in respect of those Shares) involved.

If the vesting conditions are not satisfied and no waiver of such condition is granted, the RSU shall be cancelled according to conditions as determined by the Board in its absolute discretion.

11. Appointment of the RSU Trustee

Our Company has appointed Mr. Zhao Tongtong, Mr. Liu Bing, Mr. Liu Wenwei, Mr. Wu Shenghe, Mr. Xiao Zhou, Mr. Wang Le and Mr. Wang Yuanming (collectively, the “**RSU Trustee**”) as trustees to assist in the administration of the RSU Scheme pursuant to the trust deed dated April 1, 2020 and entered into between, among others, our Company as settlor and the RSU Trustee as trustee. Our Company may (i) allot and issue Shares to the RSU Trustee to be held by the RSU Trustee and which will be used to satisfy the Shares underlying the RSUs upon exercise and/or (ii) direct and procure the RSU Trustee to receive existing Shares from any Shareholder or purchase existing Shares (either on-market or off-market) to satisfy the Shares underlying the RSUs upon exercise.

Our Company shall procure that sufficient funds are provided to the RSU Trustee by whatever means as our Board may in its absolute discretion determine to enable the RSU Trustee to satisfy its obligations in connection with the administration of the RSU Scheme. All the Shares underlying the RSUs granted and to be granted under the RSU Scheme will be transferred, allotted or issued to the RSU Trustee.

12. Exercise of RSUs

RSUs held by a RSU Participant that are vested as evidenced by the Vesting Notice may be exercised (in whole or in part) by the RSU Participant serving an exercise notice in writing on the RSU Trustee and copied to our Company. Any exercise of RSUs must be in respect of a board lot of 1,000 Shares each or an integral multiple thereof (except where the number of RSUs which remains unexercised is less than one board lot).

In an exercise notice, the RSU Participant shall request the RSU Trustee to, and the Board shall direct and procure the RSU Trustee to, within five (5) business days, transfer the Shares underlying the RSUs exercised (and, if applicable, the cash or non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions in respect of those Shares) to the RSU Participant which our Company has allotted and issued to the RSU Trustee as fully paid up Shares or which the RSU Trustee has either acquired by purchasing existing Shares or by receiving existing Shares from any Shareholder, subject to the RSU Participant paying the exercise price (where applicable) and all tax, stamp duty, levies and charges applicable to such transfer to the RSU Trustee or as the RSU Trustee directs.

Notwithstanding the foregoing, if the Participant would or might be prohibited from dealing in the Shares by the Listing Rules or by any other applicable laws, regulations or rules within the period specified above, the date on which the relevant Shares shall be allotted and issued or transferred (as the case may be) to such RSU Participant shall occur as soon as possible after the date when such dealing is permitted by the Listing Rules or by any other applicable laws, regulations or rules.

13. Rights on a takeover

If a general offer to acquire the Shares (whether by takeover offer, merger, or otherwise in a like manner) is made to all of our Shareholders (or Shareholders other than the offeror and/or any person controlled by the offeror and/or any person acting in concert with the offeror) and the general offer to acquire the Shares is approved and the offer becomes or is declared unconditional in all respects, a RSU Participant's RSUs will vest immediately, even if the vesting period has not yet commenced.

14. Rights on a compromise or arrangement

If a compromise or arrangement between our Company and our Shareholders or creditors is proposed in connection with a scheme for the reconstruction of our Company or its amalgamation with any other company or companies and a notice is given by our Company to our Shareholders to convene a general meeting to consider and if thought fit approve such compromise or arrangement and such Shareholders' approval is obtained, a RSU Participant's RSUs will vest immediately, even if the vesting period has not yet commenced.

15. Rights on voluntary winding-up

If an effective resolution is passed during the RSU Scheme Period for the voluntary winding-up of our Company (other than for the purposes of a reconstruction, amalgamation or scheme of arrangement), all outstanding RSUs shall be treated as having vested immediately. In such case, no Shares will be transferred, and no cash alternative will be paid, to the RSU Participant, but the RSU Participant will be entitled to receive out of the assets available in liquidation on an equal basis with our Shareholders such sum as they would have received in respect of the RSUs.

16. Lapse of RSUs**(i) Full lapse of RSU**

Any unvested RSU will automatically lapse immediately where:

- such RSU Participant's employment or service terminates for any reason; or
- the RSU Participant makes any attempt or takes any action to sell, transfer, assign, charge, mortgage, encumber, hedge or create any interest in favor of any other person over or in relation to any RSUs or any interests or benefits pursuant to the RSUs.

(ii) If at any time, an RSU Participant:

- fails, during the course of his employment, to devote the whole of his time and attention to the business of our Group or to use his best endeavors to develop the business and interests of our Group;
- is concerned during the course of his employment with our Group (without the prior written consent of our Company) with any (competitive or other) business other than that of our Group; and/or
- is in breach of his contract of employment with or any other obligation to our Group (including without limitation certain restrictive covenants),

then all unvested RSUs and vested RSUs which have not been exercised shall automatically lapse and such RSU Participant shall have no claim whatsoever in respect of the RSUs or the underlying Shares.

If the RSU Participant's employment or service with our Company or any member of our Group is terminated by reason of retirement, death or disability, our Board shall determine at its absolute discretion and shall notify the RSU Participant whether any unvested RSU granted to such RSU Participant shall vest and the period within which such RSU shall vest. If our Board determines that such RSU shall not vest, such RSU shall be cancelled automatically with effect from the date on which the RSU Participant's employment or service is terminated.

17. Cancellation of RSUs

Our Board may at its discretion cancel any RSU that has not vested or lapsed, provided that:

- (i) our Company or our subsidiaries pay to the RSU Participant an amount equal to the fair value of the RSU at the date of the cancellation as determined by our Board, after consultation with our auditor or an independent financial adviser appointed by our Board;
- (ii) our Company or our relevant subsidiary provides to the RSU Participant a replacement award (or a grant of option under any other restricted share unit scheme, share option scheme or share-related incentive scheme) of equivalent value to the RSUs to be cancelled; or
- (iii) our Board makes any arrangement as the RSU Participant may agree in order to compensate him/her for the cancellation of the RSUs.

18. Reorganization of capital structure

In the event of any capitalization issue, rights issue, consolidation, sub-division or reduction of the share capital of our Company, our Board may make such equitable adjustments, designed to protect the RSU Participants' interests, to the number of Shares underlying the outstanding RSUs or to the amount of the equivalent value, as it may deem appropriate at its absolute discretion.

19. Amendment of the RSU Scheme

Save as provided in the RSU Scheme, our Board may alter any of the terms of the RSU Scheme at any time. Written notice of any amendment to the RSU Scheme shall be given to all RSU Participants. Any alterations to the terms and conditions of the RSU Scheme which are of a material nature or any changes to the terms of the RSUs granted which shall operate to affect materially adversely any subsisting rights of any RSU Participant shall be subject to the consent of the RSU Participants amounting to three-fourths in nominal value of all underlying RSUs so held by the RSU Participants on the date of the relevant resolution passed by our Board in approving the amendment of the RSU Scheme or the terms of the RSUs granted (as the case may be), except where the alterations or changes take effect automatically under the existing terms of the RSU Scheme. Our Board's determination as to whether any proposed alteration to the terms and conditions of the RSU Scheme or the terms of the RSUs granted (as the case may be) is material shall be conclusive.

20. Termination of the RSU Scheme

Our Board may terminate the RSU Scheme at any time before the expiry of the RSU Scheme Period. The provisions of the RSU Scheme shall remain in full force and effect in respect of RSUs which are granted pursuant to the rules of the RSU Scheme prior to the termination of the operation of the RSU Scheme. Our Company or our relevant subsidiary shall notify the RSU Trustee and all RSU Participants of such termination and of how any property held by the RSU Trustee on trust for the RSU Participants (including, but not limited to, any Shares held) and the outstanding RSUs shall be dealt with.

21. Administration of the RSU Scheme

Our Board has the power to administer the RSU Scheme, including the power to construe and interpret the rules of the RSU Scheme and the terms of the RSUs granted under it. Our Board may delegate the authority to administer the RSU Scheme to a committee of our Board. Our Board may also appoint one or more independent third-party contractors to assist in the administration of the RSU Scheme and delegate such powers and/or functions relating to the administration of the RSU Scheme as our Board thinks fit.

Our Board's determinations under the RSU Scheme need not be uniform and may be made by it selectively with respect to persons who are granted, or are eligible to be granted, RSUs under it. If a Director is an RSU Participant he may, notwithstanding his own interest and subject to our Articles, vote on any Board resolution concerning the RSU Scheme (other than in respect of his own participation in it), and may retain RSUs under it.

Each RSU Participant waives any right to contest, amongst other things, the value and number of RSUs or Shares or equivalent value of cash underlying the RSUs or Shares and our Board's administration of the RSU Scheme.

22. General

As at June 24, 2020, RSUs in respect of underlying Shares representing approximately 4.90% of the total issued share capital of our Company had been granted to 146 RSU Participants pursuant to the RSU Scheme. Assuming the total number of Shares in issue on the Listing Date (assuming the Over-allotment Option is not exercised) will be 787,400,000, the RSUs granted to the RSU Participants as of June 24, 2020 will represent 18,702,516 underlying Shares.

Details of the RSUs granted under the RSU Scheme as at the date of this prospectus and details of the vesting period are set out in the paragraph headed “— 23. Details of the RSUs granted under the RSU Scheme” below.

23. Details of the RSU granted under the RSU scheme

None of the RSU Participants in respect of the grant below is our Director, senior management of our Company or directors of our subsidiaries and Consolidated Affiliated Entities. Details of the RSUs granted to management staff and employees of our Group under the RSU Scheme and details of such grantees immediately after the grant of RSUs on April 1, 2020 and June 24, 2020 are set out below:

Position held in our Group (by department)	Number of employees granted RSUs	Number of underlying Shares represented by RSUs	Date of grant	Approximate percentage of shareholding⁽¹⁾
Research and Development	123	2,361,500 121,000	April 1, 2020 June 24, 2020	2.31% 0.12%
Publishing and Operation Center	7	110,000	April 1, 2020	0.11%
Administration	16	588,200	April 1, 2020	<u>0.58%</u>
Total	146	3,180,700		<u><u>3.12%</u></u>

Note:

(1) Based on the total number of issued Shares as of June 24, 2020.

The grantees of the aforementioned RSUs granted under the RSU Scheme are not required to pay for the grant of such RSUs.

Such RSUs shall (unless our Company shall otherwise determine and so notify the RSU Participant in writing and subject to our Listing Date) vest as follows:

- (i) 40% of which on the first trading day after the expiry of 12 months from the Listing Date;
- (ii) 30% of which on the first trading day after the expiry of 24 months from the Listing Date; and
- (iii) 30% of which on the first trading day after the expiry of 36 months from the Listing Date.

24. Outstanding RSUs granted

Immediately after the grant of RSUs as set out above, RSUs in respect of 3,180,700 underlying Shares have been granted to any RSU Participants. Our Company intends to grant further RSUs after Listing.

E. OTHER INFORMATION**1. Estate duty**

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any member of our Group.

2. Litigation

Save for disclosed in “Business — Ongoing Legal Proceedings,” as of the Latest Practicable Date, we were not engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against us, that would have a material adverse effect on our results of operations or financial conditions.

3. Sole Sponsor

The Sole Sponsor has made an application on our behalf to the Listing Committee for the listing of, and the permission to deal in, the Shares in issue and the Shares to be issued or sold as mentioned in this prospectus (including the Shares which may be issued pursuant to the exercise of the Over-allotment Option). The Sole Sponsor satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules. The fees payable to the Sole Sponsor in respect of its services as sponsor for the Listing are US\$1.0 million and are payable by us.

4. Preliminary Expenses

The preliminary expenses of our Company are approximately HK\$138.9 million and are payable by us.

5. Promoter

Our Company has no promoter for the purposes of the Listing Rules. Within the two years immediately preceding the date of this prospectus, no cash, securities or other benefit has been paid, allotted or given nor are any proposed to be paid, allotted or given to any promoters in connection with the Global Offering and the related transactions described in this prospectus.

6. Bilingual Prospectus

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided by section 4 of the Companies Ordinance (Exemption of Companies and Prospectus from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

7. Binding Effect

This prospectus shall have effect, if an application is made pursuant to 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.

8. Qualifications of Experts

The following are the qualifications of the experts (as defined under the Listing Rules and the Companies Ordinance) who gave opinions or advice which are contained in this prospectus:

Name	Qualifications
China International Capital Corporation Hong Kong Securities Limited	A corporation licensed to conduct Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 5 (Advising on Futures Contracts) and Type 6 (advising on Corporate Finance) regulated activities under the SFO
PricewaterhouseCoopers	Certified Public Accountants under the Professional Accountants Ordinance (Cap. 50) and Registered Public Interest Entity Auditor under the Financial Reporting Council Ordinance (Cap. 588)
Tian Yuan Law Firm	Legal adviser to our Company as to PRC laws
Harney Westwood & Riegels	Legal adviser to our Company as to Cayman Islands laws
K.B. Chau & Co.	Legal adviser to our Company as to Hong Kong laws with respect to the due incorporation, subsistence and valid operation of our Hong Kong subsidiaries only
Beijing TA Law Firm	Legal adviser to our Company as to PRC laws with respect to the Dashenquan Litigation as referred to in “Business — Ongoing Legal Proceedings” only
Frost & Sullivan	Independent industry consultant

9. Consent of Experts

Each of the experts as referred to in “— E. Other Information — 8. Qualifications of Experts” in this appendix has given and has not withdrawn their respective written consents to the issue of this prospectus with the inclusion of their reports and/or letters and/or legal opinion (as the case may be) and references to their names included in the form and context in which it respectively appears.

None of experts named above has any shareholders’ interests in our Company or any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for interests in our Company or any member of our Group.

10. No Material Adverse Change

Our Directors confirm that there has been no material adverse change in the financial or trading position or prospects of our Group since December 31, 2019 (being the date to which the latest audited consolidated financial statements of our Group were prepared).

11. Miscellaneous

- (a) Save as disclosed in this prospectus:
- (i) within the two years immediately preceding the date of this prospectus, neither our Company, nor any member of our Group has issued or agreed to issue any share or loan capital fully or partly paid up either for cash or for a consideration other than cash;
 - (ii) neither our Company, nor any member of our Group has granted or agreed to grant commissions, discounts, brokerages or other special terms in connection with the issue or sale of any share or loan capital;
 - (iii) within the two years immediately preceding the date of this prospectus, no commission has been paid or payable (except commission to the Underwriters) to any persons for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any shares of our Company or any member of our Group;
 - (iv) no founder, management or deferred shares of our Company or any member of our Group have been issued or agreed to be issued; and
 - (v) our Company has no outstanding convertible debt securities or debentures;
- (b) no share or loan capital of our Company, or any member of our Group is under option or is agreed conditionally or unconditionally to be put under option;
- (c) none of the persons named in “— E. Other Information — 8. Qualifications of Experts” in this appendix is interested beneficially or otherwise in any shares of any member of our Group or has any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any securities in any member of our Group;
- (d) there is no arrangement under which the future dividends are waived or to be waived;
- (e) our Directors confirm that there has not been any interruption in the business of our Company which may have or have had a material adverse effect on the financial position of our Company in the 12 months immediately preceding the date of this prospectus;
- (f) our principal share registrar of members will be maintained by our principal registrar, Harneys Fiduciary (Cayman) Limited in the Cayman Islands and our Hong Kong register of members will be maintained by our Hong Kong Share Registrar, Tricor Investor Services Limited. All transfers and other documents of title of the Shares must be lodged for registration with and registered by our Hong Kong Share Registrar. All necessary arrangements have been made to enable the Shares to be admitted to CCASS; and
- (g) none of the equity and debt securities of our Company, if any, is listed or dealt with in any other stock exchange nor is any listing or permission to deal being or proposed to be sought.

A. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES OF HONG KONG

The documents attached to the copy of this prospectus and delivered to the Registrar of Companies in Hong Kong for registration were, among other documents:

- (a) copies of the **WHITE, YELLOW** and **GREEN** Application Forms;
- (b) the written consents referred to in “— E. Other Information — 9. Consent of Experts” in this appendix; and
- (c) copies of each of the material contracts referred to in “— B. Further Information About Our Business — 1. Summary of material contracts” in this appendix.

B. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of William Ji & Co. LLP (in Association with Tian Yuan Law Firm Hong Kong Office) at Suite 702, 7/F, Two Chinachem Central, 26 Des Voeux Road Central, 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 Accountant’s Report from PricewaterhouseCoopers, the text of which is set out in “Appendix I — Accountant’s Report;”
- (c) the audited combined financial statements of companies comprising our Group for the three years ended December 31, 2019;
- (d) the report on unaudited pro forma financial information of our Group from PricewaterhouseCoopers, the text of which is set out in “Appendix II — Unaudited Pro Forma Financial Information” to this prospectus;
- (e) the letter of advice prepared by Harney Westwood & Riegels summarizing certain aspects of the Cayman Companies Law as referred to in “Appendix III — Summary of the Constitution of our Company and the Cayman Companies Law;”
- (f) the Cayman Companies Law;
- (g) the material contracts referred to in “Appendix IV — Statutory and General Information — B. Further Information About Our Business — 1. Summary of material contracts;”
- (h) the service contracts and letters of appointment with directors, referred to in the paragraph headed “Appendix IV — Statutory and General Information — C. Further Information About Our Directors and Substantial Shareholders — 2. Particulars of service contracts;”
- (i) the written consents referred to in the paragraph headed “Appendix IV — Statutory and General Information — E. Other Information — 9. Consent of experts” in this prospectus;

- (j) the legal opinion prepared by Tian Yuan Law Firm, our PRC Legal Adviser, in respect of certain aspects of our Group and our property interests in the PRC;
- (k) the legal opinion prepared by K.B. Chau & Co, our legal adviser as to Hong Kong laws with respect to the due incorporation, subsistence and valid operation of our Hong Kong subsidiaries only;
- (l) the legal opinion prepared by Beijing TA Law Firm, our legal adviser as to PRC laws with respect to the Dashenquan Litigation as referred to in “Business — Ongoing Legal Proceedings” only;
- (m) the rules of the RSU Scheme; and
- (n) the industry report prepared by Frost & Sullivan International Limited, our industry consultant.



祖龙娱乐有限公司
Archosaur Games Inc.

