



# SINO-ENTERTAINMENT TECHNOLOGY HOLDINGS LIMITED 新娛科控股有限公司

*(Incorporated in the Cayman Islands with limited liability)*

Stock Code: 6933

# GLOBAL OFFERING

Sole Sponsor



**華高和昇財務顧問有限公司**  
WAG Worldsec Corporate Finance Limited

Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers



**華金證券(國際)有限公司**  
Huajin Securities (International) Limited



**中泰國際**  
ZHONGTAI INTERNATIONAL



**中國通海證券**  
CHINA TONGHAI SECURITIES

Joint Bookrunners



**交銀國際**  
BOCOM International



**國信證券(香港)**  
GUOSEN SECURITIES (HK)



**東吳證券(國際)**  
SOOCHOW SECURITIES (INTERNATIONAL)



**東方證券**  
— D F Z Q —

國際

# IMPORTANT

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



## SINO-ENTERTAINMENT TECHNOLOGY HOLDINGS LIMITED 新娛科控股有限公司

(Incorporated in the Cayman Islands with limited liability)

### GLOBAL OFFERING

<b>Total number of Offer Shares</b>	<b>:</b>	<b>100,000,000 Shares comprising 76,000,000 new Shares and 24,000,000 Sale Shares (subject to the Over-allotment Option)</b>
<b>Number of Hong Kong Offer Shares</b>	<b>:</b>	<b>10,000,000 Shares (subject to adjustment)</b>
<b>Number of International Offer Shares</b>	<b>:</b>	<b>90,000,000 Shares comprising 66,000,000 new Shares and 24,000,000 Sale Shares (subject to adjustment and the Over-allotment Option)</b>
<b>Offer Price</b>	<b>:</b>	<b>not more than HK\$1.87 per Offer Share and expected to be not less than HK\$1.63 per Offer Share plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% (payable in full on application and subject to refund)</b>
<b>Nominal value</b>	<b>:</b>	<b>US\$0.0001 per Share</b>
<b>Stock code</b>	<b>:</b>	<b>6933</b>

*Sole Sponsor*



*Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers*



*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 howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

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

**The Offer Price is expected to be determined by agreement between our Company (for ourselves and on behalf of the Selling Shareholders) and the Joint Global Coordinators (for themselves and on behalf of the other Underwriters) on the Price Determination Date or such later date as may be agreed by our Company (for ourselves and on behalf of the Selling Shareholders) and the Joint Global Coordinators (for themselves and on behalf of the other Underwriters) but in any event no later than Monday, 13 July 2020. The Offer Price will be not more than HK\$1.87 per Offer Share and is expected to be not less than HK\$1.63 per Offer Share, unless otherwise announced.**

The Joint Global Coordinators (for themselves and on behalf of the other Underwriters) may, with our Company's consent, reduce the indicative Offer Price range stated in this prospectus and/or the number of Offer Shares under the Global Offering at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, a notice of reduction in the indicative Offer Price range and/or the number of Offer Shares will be published on our website at [www.dingliangame.com](http://www.dingliangame.com) and the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. Such notices will also be available at the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and website of our Company at [www.dingliangame.com](http://www.dingliangame.com). Details of the arrangement will then be announced by our Company as soon as practicable. Further details are set out in the sections headed "Structure and conditions of the Global Offering" and "How to apply for the Hong Kong Offer Shares" in this prospectus.

If, for any reason, the Offer Price is not agreed between the Joint Global Coordinators (for themselves and on behalf of the other Underwriters) and our Company (for ourselves and on behalf of the Selling Shareholders) on or before Monday, 13 July 2020, the Global Offering will not become unconditional and will lapse immediately.

Prior to making an investment decision, prospective investors should consider carefully all the information set out in this prospectus, including the risk factors set out in "Risk factors" in this prospectus. Pursuant to the Hong Kong Underwriting Agreement, the Joint Global Coordinators (for themselves and on behalf of the other Hong Kong Underwriters) has the right in certain circumstances to terminate the obligations of the Hong Kong Underwriters at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date. Further details of such circumstances are set out in "Underwriting — Underwriting arrangements and expenses — Hong Kong Public Offering — Grounds for termination" in this prospectus.

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

30 June 2020

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

*If there is any change in the following expected timetable, our Company will issue an announcement on the websites of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and our Company at [www.dingliangame.com](http://www.dingliangame.com).*

Hong Kong Public Offering commences and

**WHITE** and **YELLOW** Application Forms available from . . . . . 9:00 a.m. on Tuesday, 30 June 2020

Latest time to complete electronic applications under  
the **HK eIPO White Form** service through one of  
the below ways<sup>(2)</sup>:

(1) the designated website [www.hkeipo.hk](http://www.hkeipo.hk)

(2) the **IPO App**, which can be downloaded by searching

“**IPO App**” in App Store or Google Play Store or

downloaded at [www.hkeipo.hk/IPOApp](http://www.hkeipo.hk/IPOApp) or

[www.tricorglobal.com/IPOApp](http://www.tricorglobal.com/IPOApp) . . . . . 11:30 a.m. on Monday, 6 July 2020

Application lists open<sup>(3)</sup> . . . . . 11:45 a.m. on Monday, 6 July 2020

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

Application Forms and giving

**electronic application instructions** to HKSCC<sup>(4)</sup> . . . . . 12:00 noon on Monday, 6 July 2020

Latest time to complete payment

of **HK eIPO White Form** applications

by effecting internet banking transfer(s)

or PPS payment transfer(s) . . . . . 12:00 noon on Monday, 6 July 2020

Application lists close<sup>(3)</sup> . . . . . 12:00 noon on Monday, 6 July 2020

Expected Price Determination Date<sup>(5)</sup> . . . . . Monday, 6 July 2020

Announcement of the final Offer Price,

the level of indication of interest in the International Offering,

the level of applications in respect of

the Hong Kong Public Offering and the results

and basis of allotment under the Hong Kong Public Offering

to be published on the website of Stock Exchange

at [www.hkexnews.hk](http://www.hkexnews.hk) and our Company’s

website at [www.dingliangame.com](http://www.dingliangame.com) on or before . . . . . Tuesday, 14 July 2020

Announcement of the results of allocations (with successful  
applicants’ identification document numbers, where applicable)

to be published on the website of the Stock Exchange

at [www.hkexnews.hk](http://www.hkexnews.hk) and our Company’s website at [www.dingliangame.com](http://www.dingliangame.com)<sup>(6)</sup>

as described in the section “How to apply for the Hong Kong

Offer Shares — 11. Publication of results” on or before . . . . . Tuesday, 14 July 2020

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

Results of allocations in the Hong Kong Public Offering to be available at [www.tricor.com.hk/ipo/result](http://www.tricor.com.hk/ipo/result) (alternatively: [www.hkeipo.hk/IPOResult](http://www.hkeipo.hk/IPOResult)) or available at “Allotment Result” function in the **IPO App** with a “search by ID/Business Registration Number” function from . . . . . Tuesday, 14 July 2020

Dispatch/collection of share certificates or deposit of Share certificates into CCASS<sup>(7 and 8)</sup> in respect of wholly or partially successful applications pursuant to the Hong Kong Public Offering on or before . . . . . Tuesday, 14 July 2020

Dispatch of **HK eIPO White Form** e-Auto Refund payment instructions and dispatch/collection of refund cheques<sup>(8, 9 and 10)</sup> in respect of wholly or partially unsuccessful applications under the Hong Kong Public Offering on or before . . . . . Tuesday, 14 July 2020

Dealings in Shares on the Main Board to commence at . . . . . 9:00 a.m. on Wednesday, 15 July 2020

### Notes:

1. All times and dates refer to Hong Kong local time and date. Details of the structure of the Global Offering, including its conditions, are set out in “Structure and conditions of the Global Offering” in this prospectus.
2. You will not be permitted to submit your application to the **HK eIPO White Form** Service Provider through the designated website at [www.hkeipo.hk](http://www.hkeipo.hk) or the **IPO App** after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained a payment reference number from the designated website at [www.hkeipo.hk](http://www.hkeipo.hk) or the **IPO App** prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
3. If there is a “black” rainstorm warning or a tropical cyclone warning signal number 8 or above in force and/or extreme conditions in Hong Kong at any time between 9:00 a.m. to 12:00 noon on Monday, 6 July 2020, the application lists will not open and close on that day. Particulars of the arrangements are set forth under “How to apply for the Hong Kong Offer Shares — 10. Effect of bad weather and/or extreme conditions on the opening of the application lists” in this prospectus. If the application lists do not open and close on Monday, 6 July 2020, the dates mentioned in this section “Expected timetable” may be affected. A press announcement will be made by our Company in such event.
4. Applicants who apply for the Hong Kong Offer Shares by giving **electronic application instructions** should refer to “How to apply for the Hong Kong Offer Shares — 6. Applying by giving electronic application instructions to HKSCC via CCASS” in this prospectus.
5. The Price Determination Date is expected to be on or around Monday, 6 July 2020 and, in any event, not later than Monday, 13 July 2020. If, for any reason, the Offer Price is not agreed between the Joint Global Coordinators (for themselves and on behalf of the other Underwriters) and our Company (for ourselves and on behalf of the Selling Shareholders) by Monday, 13 July 2020, the Global Offering will not proceed and will lapse.
6. None of the website of our Company or any of the information contained on the website of our Company forms part of this prospectus.
7. Share certificates for the Hong Kong Offer Shares will only become valid certificates of title at 8:00 a.m. (Hong Kong time) on the Listing Date (such date is currently expected to be on Wednesday, 15 July 2020) provided that (i) the Global Offering becomes unconditional in all respects; and (ii) the right of termination as described in “Underwriting — Underwriting arrangements and expenses — Hong Kong Public Offering — Grounds for termination” in this prospectus has not been exercised thereto and has lapsed. Investors who trade Shares on the basis of publicly available allocation details prior to the receipt of Share certificates or prior to the Share certificates becoming valid certificates of title do so entirely at their own risk.

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

8. Applicants who have made an application using **WHITE** Application Forms for 1,000,000 or more Hong Kong Offer Shares under the Hong Kong Public Offering and have provided all information required by the Application Form may collect their refund cheque(s) and/or share certificate(s) in person from the Hong Kong Branch Share Registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong between 9:00 a.m. to 1:00 p.m. on Tuesday, 14 July 2020. Applicants being individuals who are eligible for personal collection may not authorise any other person to make collection on their behalf. Applicants being corporations which eligible for personal collection must attend by their authorised representatives bearing letters of authorisation from their corporations stamped with their chops. Both individuals and authorised representatives of corporations must produce, at the time of collection, evidence of identity and/or (where applicable) authorisation documents acceptable and satisfactory to the Hong Kong Branch Share Registrar.

If an applicant is using a **YELLOW** Application Form or giving Electronic Application Instructions, the relevant arrangements are set out in the section "How to apply for the Hong Kong Offer Shares — 14. Dispatch/collection of share certificates and refund monies" in this prospectus.

Uncollected share certificates and refund cheques will be dispatched by ordinary post, at the applicants' own risk, to the addresses specified on the relevant applications. Further information is set out in the sections headed "How to apply for the Hong Kong Offer Shares — 14. Dispatch/collection of share certificates and refund monies" and "How to apply for the Hong Kong Offer Shares — 12. Circumstances in which you will not be allocated Hong Kong Offer Shares" in this prospectus.

9. e-Auto Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful applications under the Hong Kong Public Offering and also in respect of wholly or partially successful applications in the event that the final Offer Price is less than the price payable per Offer Share on application.
10. Part of the Hong Kong identity card number/passport number of an applicant or, if there are joint applicants, part of the Hong Kong identity card number/passport number of the first-named applicant, provided by the relevant applicant may be printed on the refund cheque, if any. Such data would also be transferred to a third party for refund purpose. The banker of the relevant applicant may require verification of his/her Hong Kong identity card number/passport number before encashment of the refund cheque. Inaccurate completion of Hong Kong identity card number/passport number may lead to delay in encashment of, or may invalidate, the refund cheque.

**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 the Hong Kong Offer Shares" in this prospectus for details of the Hong Kong Public Offering, including the conditions of the Hong Kong Public Offering, and the procedures for application for the Hong Kong Offer Shares.**

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

*You should rely only on the information contained in this prospectus to make your investment decision. Our Company has not authorised anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not contained or made in this prospectus must not be relied on by you as having been authorised by our Company, the Selling Shareholders, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-Managers, any of the Underwriters, any of their respective directors, affiliates, employees or representatives or any other person or party involved in the Global Offering.*

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## SUMMARY

*This summary aims at giving you an overview of the information contained in this prospectus. As this is a summary, it does not contain all the information that may be important to you. You should read this prospectus in its entirety before you decide to invest in our Shares.*

*There are risks associated with any investment. Some of the particular risks in investing in our Shares are set out in “Risk factors” in this prospectus. You should read that section carefully before you decide to invest in our Shares.*

*Various expressions used in this summary are defined in “Definitions” in this prospectus.*

## OVERVIEW

We are an integrated game publisher and developer in China with a focus on publishing mobile games in the market of China. We are committed to bringing quality and interactive gameplay experience to game players by drawing upon our experience and expertise in the mobile game industry together with our sound understanding with our publishing partners and game players gained over the years of our operations to develop and publish high-quality and well-customised mobile games. Our Group first commenced its business in 2014 engaging in the sales of computers, computer accessories and electronic products, as well as the development of software and websites in China. We expanded our game development business and started to develop mobile games since 2015 and further tap into mobile games publishing business in 2016, where third party publishers engage us as co-publisher to provide publishing services for mobile games developed by third party game developers. As a co-publisher, instead of acting as a main publisher, we act as a sub-contractor to the third party publishers to co-publish the third party games. In 2018, we also began to publish our self-developed games as the main publisher. According to the CIC Report, our Group captured a market share of 0.1% in the mobile game industry in the PRC in 2019.

As a game publisher, we (i) offer publishing services to our publishing partners for third party games and (ii) publish our self-developed games. For co-publishing of third party games, we normally provide marketing, promotional, distribution and coordination services to third party publishers as co-publisher and assist them to publish their games on various distribution channels, where we may sometimes obtain exclusive rights from third party publishers to promote and publish the games on designated distribution channels. For certain games, we would also publish and distribute the games on our self-operated platform and be responsible for user related services including user log-in, top-up and payment services. As a co-publisher for co-publishing third party games, we work and negotiate directly with the third party publishers and do not collaborate with the mobile game developers or other publishing service providers engaged by the third party publishers. Occasionally, we would subcontract some of our co-publishing responsibilities to our downstream third party publishing partners depending on the publishing work scope and our available resources. During the Track Record Period, we have published over 320 third party games on third party distribution channels and our self-operated platform as co-publisher, and published two games developed by our in-house development team. For publishing of our self-developed games, we enjoy all the proprietary rights of the games and are primarily responsible for publishing or arranging various publishing services, and would often engage downstream third party publishing partners to be responsible for certain parts of the publishing of the game. We collaborate with these third party publishing partners to formulate the publishing work scope and the respective revenue sharing arrangement. For further details on our game publishing business, see “Business — Game publishing” on page 169 of this prospectus.

In addition to game publishing, we have also engaged in development and sales of customised software and games. Since the commencement of our mobile game development in 2015 and up to the Latest Practicable Date, we had developed 22 proprietary games mainly in the RPG and casual games genres. During the Track Record Period, we have sold one of our self-developed games to a third party



## SUMMARY

game developer and publisher, and published two of our self-developed games. We launched an additional self-developed game in February 2020. As at the Latest Practicable Date, all of the three self-developed games were still in operation. We target to launch five self-developed games in each of 2021 and 2022 subject to approval of relevant governmental authorities. In addition to direct sales of our self-developed games, we would also be commissioned by third party game developers and publishers to develop customised software or modify certain third party game contents.

We experienced steady growth in terms of revenue during the Track Record Period, which was primarily due to our ability to co-publish an extensive portfolio of mobile games covering a wide range of games genres and our success in launching two self-developed games in 2018. Our initial success in publishing third party casual games as co-publisher in 2016 has led us to further place our business direction and focus in co-publishing third party games in the Track Record Period. By increasing capital contribution to our Group, accumulating and utilising financial resources we generated through our operations, and expanding extensively the size of our publishing team, we were able to establish solid partnerships with different third party publishers and significantly increased the number and genre coverage of third party games we co-published since FY2017. Our revenue increased from RMB107.3 million for FY2017 to RMB151.2 million for FY2018, and further increased to RMB187.7 million for FY2019, representing a CAGR of 32.3%. Our profit for FY2017, FY2018 and FY2019 amounted to RMB31.5 million, RMB39.4 million and RMB50.5 million, respectively, representing a CAGR of 26.6%. We recorded a steady growth in our business and our revenue during the Track Record Period, but we have a limited operating history in the game publishing and development business. For details, see “Risk factors - Our steady growth during the Track Record Period may not be indicative of our future growth, and our limited operating history makes it difficult to evaluate our growth prospects and future financial results.” on page 39 of this prospectus.

The following tables set out breakdowns of our (i) revenue; (ii) gross profit and gross profit margin; and (iii) cost of sales during the Track Record Period:

### Revenue by segment

	FY2017		FY2018		FY2019	
	RMB'000	% of revenue	RMB'000	% of revenue	RMB'000	% of revenue
Game publishing						
– Co-publishing of third party games	98,758	92.1	107,248	70.9	142,174	75.7
– Publishing of self-developed games	–	–	32,904	21.8	45,536	24.3
Development and sales of customised software and games	8,505	7.9	11,062	7.3	–	–
Others <sup>(1)</sup>	4	0.0	–	–	–	–
<b>Total</b>	<b>107,267</b>	<b>100.0</b>	<b>151,214</b>	<b>100.0</b>	<b>187,710</b>	<b>100.0</b>

*Note:*

- (1) It represents revenue we generated from sales of computer equipment and hardware, which was insignificant to our Group during the Track Record Period.

## SUMMARY

### Gross profit and gross profit margin by segment

	FY2017		FY2018		FY2019	
	Gross profit RMB'000	Gross profit margin %	Gross profit RMB'000	Gross profit margin %	Gross profit RMB'000	Gross profit margin %
Game publishing						
– Co-publishing of third party games	32,756	33.2	39,446	36.8	50,723	35.7
– Publishing of self-developed games	–	–	8,143	24.7	25,090	55.1
Development and sales of customised software and games	7,244	85.2	9,426	85.2	–	–
Others	– <sup>(1)</sup>	11.6	–	–	–	–
<b>Total</b>	<b>40,000</b>	<b>37.3</b>	<b>57,015</b>	<b>37.7</b>	<b>75,813</b>	<b>40.4</b>

*Note:*

(1) The amount is less than RMB1,000.

### Cost of sales by major components

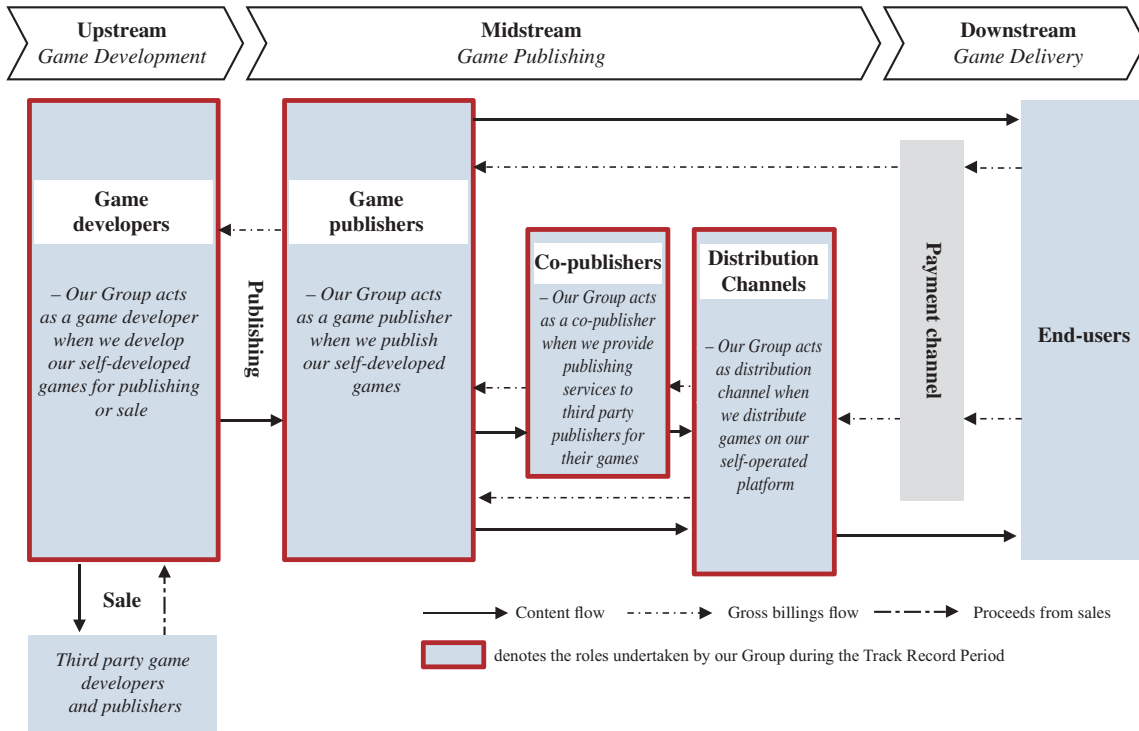
	FY2017		FY2018		FY2019	
	RMB'000	% of revenue	RMB'000	% of revenue	RMB'000	% of revenue
Publishing related costs	63,589	59.3	87,512	57.9	106,950	57.0
Procurement costs	4	0.0	–	–	–	–
Staff costs	1,826	1.7	4,350	2.9	3,482	1.8
Others	1,848	1.7	2,337	1.5	1,465	0.8
<b>Total</b>	<b>67,267</b>	<b>62.7</b>	<b>94,199</b>	<b>62.3</b>	<b>111,897</b>	<b>59.6</b>

# SUMMARY

## BUSINESS MODEL

During the Track Record Period, we principally engaged in mobile game publishing as well as development and sale of customised software and mobile games.

The following chart illustrates the value chain of game development and publishing and the various roles we played in this value chain:



### As game developer

Since 2015, we commenced our development of mobile games and have developed a series of games focusing in the RPG and casual game genres. Up to the Latest Practicable Date, we had developed 22 games and our self-developed games were offered for sale or published by us.

For sale of our self-developed games, we generate revenue by offering games that have been developed in-house to interested purchasers. Such purchasers are normally third party game developers and publishers who see potentials of the games we develop. We also engage in commissioned development where we are commissioned by third party game developers or publishers to develop customised software or certain game contents for some third party games. See "Business — Game development and sales — Sale of our self-developed games and software" on page 187 of this prospectus for details. For FY2017, FY2018 and FY2019, the revenue we generated from the development and sales of customised software and games was RMB8.5 million, RMB11.1 million and nil, representing 7.9%, 7.3% and nil of our total revenue, respectively.

During the Track Record Period and up to the Latest Practicable Date, we also published three of our self-developed games. See "Business — Game publishing — Publishing — Publishing of self-developed games" on page 175 of this prospectus for details.

## SUMMARY

### **As game publisher**

Game publishers are primarily responsible for marketing, promotion, distribution, and other user-related services, as well as coordinating with game developers on updates and modifications based on user or market feedback. Mobile game publishers publish mobile games either developed by their in-house development team or third-party game developers.

In 2018, we commenced to publish mobile games developed by our in-house development team with our own proprietary titles, namely Hollow Storm\* (虛空風暴) and Princess in Distress\* (公主遇險記) and we are primarily responsible for publishing or arranging publishing services such as marketing, promotion, distribution, monetisation, user support, account registration, payment and other related services. In February 2020, we launched an additional self-developed game, namely Stratagem in the Three Kingdoms\* (醉計三國). We would often engage downstream third party publishing partners including third party distribution channels to be responsible for certain parts of the publishing including the distribution of games. We collaborate with these third party publishing partners to formulate the publishing work scope and the respective revenue sharing arrangement. See “Our game portfolio — Games in operation” on page 161 of this prospectus and “Game publishing — Publishing — Publishing of self-developed games” on page 175 of this prospectus for details. Our revenue from publishing our self-developed games is generated from selling of in-game virtual items to game users where we usually share the gross billings generated from game users with our downstream publishing partners on revenue sharing basis (i.e. CPS) with the agreed revenue sharing percentage offered to them ranging from 30.0% to 55.0%. For FY2017, FY2018 and FY2019, the revenue generated from the publishing of our self-developed games was nil, RMB32.9 million and RMB45.5 million, representing nil, 21.8% and 24.3% of our total revenue, respectively.

### **As co-publisher**

Co-publishers are publishers other than game publishers that are designated part of the responsibility of the game publisher. Co-publishers provide marketing, promotional, distribution and coordination services to game publishers. Game publishers usually work with co-publishers due to their comprehensive coverage of channels and marketing resources, or out of cost concerns.

We provide publishing services to third party publishers for third party games as a co-publisher which, by co-publishing over 320 third party games, generated the majority of our revenue during the Track Record Period. Subject to the co-publishing agreements entered into between the third party publishers and us, our publishing services include marketing, promotional, distribution, coordination and other user related services. We work and negotiate directly with the upstream third party publishers and do not collaborate with the mobile game developers or other publishing service providers engaged by the third party publishers. Occasionally, we would subcontract some of our co-publishing responsibilities to our downstream third party publishing partners including other third party co-publishers, advertising agents, payment channels and distribution channels depending on the publishing work scope and our available resources. See “Business — Game publishing — Publishing — Co-publishing of third party games” on page 171 of this prospectus for details. Our revenue from co-publishing is calculated based on two main types of charging basis (i.e. CPA and CPC) or revenue sharing basis (i.e. CPS). For details of the arrangement and percentage under each charging or revenue sharing basis for co-publishing third party games during the Track Record Period, see “Business — Game publishing — Revenue from publishing business — Third party games” on page 175 of the prospectus. For FY2017, FY2018 and FY2019, our revenue generated from co-publishing third party games was RMB98.8 million, RMB107.2 million and RMB142.2 million, respectively, representing 92.1%, 70.9% and 75.7% of our total revenue, respectively.

## SUMMARY

### As distribution channel

Distribution channels generally refer to the iOS app store and Android app stores. Unlike the dominant status of the iOS app store, there are various app stores on Android system including the open platforms operated by leading mobile manufacturers in China or other Independent Third Parties, or our self-operated platform. Distribution channels also participate in the marketing and promotion of games distributed through their platforms. See “Industry overview — Mobile game industry in the PRC — Analysis of distribution channels of the mobile game industry in the PRC” on page 88 of this prospectus for details of the description, traffic volume, traffic source and market shares of each type of major distribution channels.

For certain third party games that we co-publish, we would also distribute the games on our self-operated platform and insert our own SDK to the game where we are responsible for user log-in, top-up and payment services. During the Track Record Period, our service of distributing third party games with our own SDK on our self-operated platform was provided as an integrated part of our game co-publishing services and reflected in the service charge to our customers as co-publisher. See “Business — Game publishing — Publishing — Co-publishing of third party games” on page 171 of this prospectus for details.

### OUR GAME PORTFOLIO

We have published a large portfolio of mobile games sourced from third party publishers or developed by our in-house development team independently. For our self-developed proprietary games, we may publish them ourselves or sell their source code to third party purchasers. During the Track Record Period, we co-published over 320 third party games.

Third parties games that we co-publish are in various genres. The table below sets forth details of the third party games we co-published by genre during the Track Record Period:

	FY2017			FY2018			FY2019		
	Number of games co-published	Revenue RMB'000	%	Number of games co-published	Revenue RMB'000	%	Number of games co-published	Revenue RMB'000	%
RPG	49	67,038	67.9	82	49,725	46.4	121	74,621	52.5
SLG	3	3,363	3.4	9	45,822	42.7	46	61,823	43.5
Casual	50	25,919	26.2	10 <sup>(1)</sup>	11,701	10.9	23 <sup>(1)</sup>	5,730	4.0
Others <sup>(2)</sup>	6	2,438	2.5	—	—	—	—	—	—
<b>Total</b>	<b>108</b>	<b>98,758</b>	<b>100.0</b>	<b>101<sup>(3)</sup></b>	<b>107,248</b>	<b>100.0</b>	<b>190<sup>(4)</sup></b>	<b>142,174</b>	<b>100.0</b>

*Notes:*

- (1) It comprises a game platform of casual games.
- (2) It mainly represents arcade games, sports games and applications.
- (3) In FY2018, there were nine RPG games, two SLG games and seven casual games that we had been co-publishing since FY2017.
- (4) In FY2019, there were 42 RPG games, seven SLG games and two casual games that we had been co-publishing since FY2018 and two RPG games that we had been co-publishing since FY2017.

## SUMMARY

Our in-house development team has also been developing a series of games with a focus on the RPG and casual game genres.

All of our self-developed games are in mobile application form and free to download, and players can play with basic functions for free. We believe that our freemium model attracts a wider audience of players and increases the number of potential paying users.

Since the commencement of our mobile game development in 2015 and up to the Latest Practicable Date, we had completed the development of 22 games. During the Track Record Period, one game was sold to a third party game developer and publisher. We also published two of our self-developed games, namely Hollow Storm\* (虛空風暴) and Princess in Distress\* (公主遇險記) and began our trial-run of another self-developed game, namely Stratagem in the Three Kingdoms\* (醉計三國), which were RPG games and collectively generated revenue of RMB32.9 million and RMB45.5 million in FY2018 and FY2019, respectively, representing 21.8% and 24.3% of our total revenue in the same periods, respectively.

The following table sets forth the respective operational data of and revenue generated from Hollow Storm\* (虛空風暴), Princess in Distress\* (公主遇險記) and Stratagem in the Three Kingdoms\* (醉計三國) during the Track Record Period and up to 30 April 2020:

	Hollow Storm* (虛空風暴)	Princess in Distress* (公主遇險記)	Stratagem in the Three Kingdoms* (醉計三國)
Game genre	RPG	RPG	RPG
Launch time	Initial launch: July 2018 Re-open: April 2019 <sup>(1)</sup>	August 2018	February 2020
Stage of life cycle as at Latest Practicable Date	Mature	Mature	Early growth
Revenue	FY2018: RMB26.5 million FY2019: RMB35.1 million April 2020: RMB11.4 million <sup>(2)</sup>	FY2018: RMB6.4 million FY2019: RMB10.4 million April 2020: RMB1.0 million <sup>(2)</sup>	FY2019: RMB60,000 <sup>(4)</sup> April 2020: RMB21.5 million <sup>(2)(4)</sup>
% to total revenue	FY2018: 17.5% FY2019: 18.7% April 2020: 17.4% <sup>(2)</sup>	FY2018: 4.2% FY2019: 5.5% April 2020: 1.6% <sup>(2)</sup>	FY2019: 0.0% <sup>(4)</sup> April 2020: 32.9% <sup>(2)(4)</sup>
Average MAU	FY2018: 508,740 <sup>(3)</sup> FY2019: 277,140 <sup>(3)</sup> April 2020: 335,718 <sup>(2)</sup>	FY2018: 324,290 <sup>(3)</sup> FY2019: 565,577 April 2020: 296,355 <sup>(2)</sup>	FY2019: 11,022 <sup>(4)</sup> April 2020: 432,230 <sup>(2)(4)</sup>
Average MPU	FY2018: 30,374 <sup>(3)</sup> FY2019: 19,017 <sup>(3)</sup> April 2020: 17,539 <sup>(2)</sup>	FY2018: 47,320 <sup>(3)</sup> FY2019: 60,499 April 2020: 23,658 <sup>(2)</sup>	FY2019: 367 <sup>(4)</sup> April 2020: 29,993 <sup>(2)(4)</sup>
ARPPU	FY2018: RMB159.2 <sup>(3)</sup> FY2019: RMB158.8 <sup>(3)</sup> April 2020: RMB161.9 <sup>(2)</sup>	FY2018: RMB27.8 <sup>(3)</sup> FY2019: RMB14.3 April 2020: RMB11.0 <sup>(2)</sup>	FY2019: RMB163.5 <sup>(4)</sup> April 2020: RMB179.0 <sup>(2)(4)</sup>
Average monthly gross billings	FY2018: RMB6.2 million <sup>(3)</sup> FY2019: RMB3.2 million <sup>(3)</sup> April 2020: RMB2.8 million <sup>(2)</sup>	FY2018: RMB1.4 million <sup>(3)</sup> FY2019: RMB0.9 million April 2020: RMB0.3 million <sup>(2)</sup>	FY2019: RMB64,000 <sup>(4)</sup> April 2020: RMB5.8 million <sup>(2)(4)</sup>

## SUMMARY

*Notes:*

- (1) Hollow Storm\* (虛空風暴) was launched in July 2018 and temporarily suspended for game log-in for a major game upgrade in order to improve the gameplay since late December 2018. The game was re-opened on 10 April 2019 and in full operation as at the Latest Practicable Date. Due to the temporary suspension of game log-in, the popularity and operating results of the such game were adversely affected. However, attributable to the major game upgrade, our Group has successfully prolonged the game life cycle of the game and continued to generate revenue since the re-open of the game.
- (2) Based on unaudited financial information or operational data for the four months ended 30 April 2020.
- (3) Based on operational data from the initial launch or re-opening of the game to the end of the relevant financial year.
- (4) Stratagem in the Three Kingdoms\* (醉計三國) commenced trial-run in December 2019 and was launched in February 2020. Such financial information or operational data also take into account results of the trial-run period.

The following table sets out the revenue contribution from the top five games published by our Group during the Track Record Period:

Game	Source of game	Genre	Revenue calculation basis	Revenue RMB'000	% of revenue from game publishing %
<b>FY2017</b>					
Legend of the God of War* (武神傳説)	Third party	RPG	CPS	10,918	11.1
Legendary Battle Hymn* (傳奇戰歌)	Third party	RPG	CPS	8,186	8.3
Taichi Panda 3* (太極熊貓3)	Third party	RPG	CPC	7,264	7.4
King of Wushu: Origin* (九陽神功：起源)	Third party	RPG	CPC	4,964	5.0
Dragon King Legend* (龍王傳説)	Third party	RPG	CPA	4,203	4.3
<b>FY2018</b>					
Commanding Frontline* (指揮前線)	Third party	SLG	CPS	27,570	19.7
Hollow Storm* (虛空風暴)	Self-developed	RPG	Sales of in-game virtual items	26,490	18.9
Interstellar Civilisation* (星際文明)	Third party	SLG	CPS	10,263	7.3
Yunsu Game Platform* (雲速遊戲) <sup>(1)</sup>	Third party	Casual	CPA	6,638	4.7
Princess in Distress* (公主遇險記)	Self-developed	RPG	Sales of in-game virtual items	6,413	4.6

## SUMMARY

Game	Source of game	Genre	Revenue calculation basis	Revenue RMB'000	% of revenue from game publishing %
<b>FY2019</b>					
Hollow Storm* (虛空風暴)	Self-developed	RPG	Sales of in-game virtual items	35,103	18.7
Warmish Town* (暖暖小鎮)	Third party	RPG	CPS	21,983	11.7
Miracle of the People* (全民奇蹟)	Third party	SLG	CPS	14,486	7.7
Princess in Distress* (公主遇險記)	Self-developed	RPG	Sales of in-game virtual items	10,373	5.5
Westward Journey* (叻叻西遊)	Third party	RPG	CPS	9,268	4.9

*Note:*

- (1) It is a platform of casual games which we were commissioned by Customer I, one of our top five customers in FY2018, to provide promotional service.

As at the Latest Practicable Date, we had in our publishing pipeline two titles of our self-developed proprietary games that had completed alpha-testing of our development stage and we had applied for registration with NPPA for these games. The following table sets forth the details of such games in chronological order of their proposed launch dates:

Title	Registration status with NPPA	Genre	Expected official launch date <sup>(1)</sup>	Expected lifecycle
Apprentice of the Spirit* (英靈學徒)	Pending for pre-approval	RPG	May 2021	6-12 months
Fearless Sword* (刀劍忘機)	Pending for pre-approval	RPG	June 2021	6-12 months

*Note:*

- (1) The successful launching and publishing of our games are subject to pre-approval from the NPPA. If the NPPA does not issue the pre-approvals for publishing our games before the expected official launch dates, the official launch dates of our games will be delayed or we may seek for interested purchasers to purchase our games depending on the future market situation.

As at the Latest Practicable Date, in addition to 92 third party games which we were co-publishing, we had been engaged and expected to further co-publish 14 third party games in 2020, including eight RPG games, one SLG game and five casual games, with initial contract terms ranging from six months to three years as stipulated under the respective co-publishing agreements entered into between our Group and the third party publishers. The commencement and actual duration of the co-publishing period of a third party game are subject to the schedule agreed and adjusted with the third party publishers from time to time with reference to the profitability and market reception of the game. In order to maintain a significant number of third party games with wide coverage of genres in our game portfolio for co-publishing as our business practice, our publishing team constantly and continuously seeks for new third party games and negotiates with third party publishers for new co-publishing arrangements.



## SUMMARY

For details, see “Business — Our game portfolio” on page 158 of this prospectus.

### OUR CUSTOMERS AND SUPPLIERS

Our customers in relation to our game publishing business include (i) third party publishers who engage us as co-publishers and (ii) game users who purchase in-game virtual items in our self-developed games or third party games which we co-publish on our self-operated platform inserting our own SDK. For our development and sale of customised software and mobile games business, our customers include (i) third party purchasers of our self-developed games and (ii) third party game developers and publishers which engage us for commissioned development. As at the Latest Practicable Date, we had business relationships with our five largest customers during the Track Record Period from 11 months to three years. For FY2017, FY2018 and FY2019, the revenue generated from our five largest customers was RMB51.9 million, RMB78.6 million and RMB105.6 million, respectively, representing 48.3%, 52.0% and 56.2% of our revenue for the same periods, respectively, and the revenue generated from our single largest customer amounted to RMB17.3 million, RMB28.2 million and RMB34.4 million, respectively, representing 16.1%, 18.7% and 18.3% of our revenue for the same periods, respectively. For details, see “Business — Our customers” on page 190 of this prospectus.

Our suppliers mainly include our publishing partners which we often publish our games in collaboration with and include other third party publishers, third party advertising agents, distribution channels operators, payment channels and other service providers. As at the Latest Practicable Date, we had business relationships with our five largest suppliers during the Track Record Period from one to three years. For FY2017, FY2018 and FY2019, the procurement from our five largest suppliers amounted to RMB45.7 million, RMB48.4 million and RMB72.1 million, respectively, representing 71.8%, 55.3% and 67.4% of our total purchase for the same periods respectively. For FY2017, FY2018 and FY2019, the procurement from our largest supplier amounted to RMB12.8 million, RMB12.5 million and RMB30.7 million, respectively, representing 20.1%, 14.2% and 28.7% of our total purchase for the same periods respectively. For details, see “Business — Our suppliers” on page 193 of this prospectus.

### COMPETITIVE STRENGTHS

We believe that our competitive strengths are as follows, each of which is discussed in greater detail in “Business — Competitive strengths” on page 151 of this prospectus:

- Publishing of an extensive portfolio of games and successful partnerships with a significant number of publishers.
- An integrated major mobile game publisher and developer in China.
- Possession of game development capabilities and talents.
- Management team with extensive experience in the mobile game industry.

### BUSINESS STRATEGIES

We intend to implement a business strategy with the following key components, the details of which will be discussed in “Business — Business strategies” on page 153 of this prospectus:

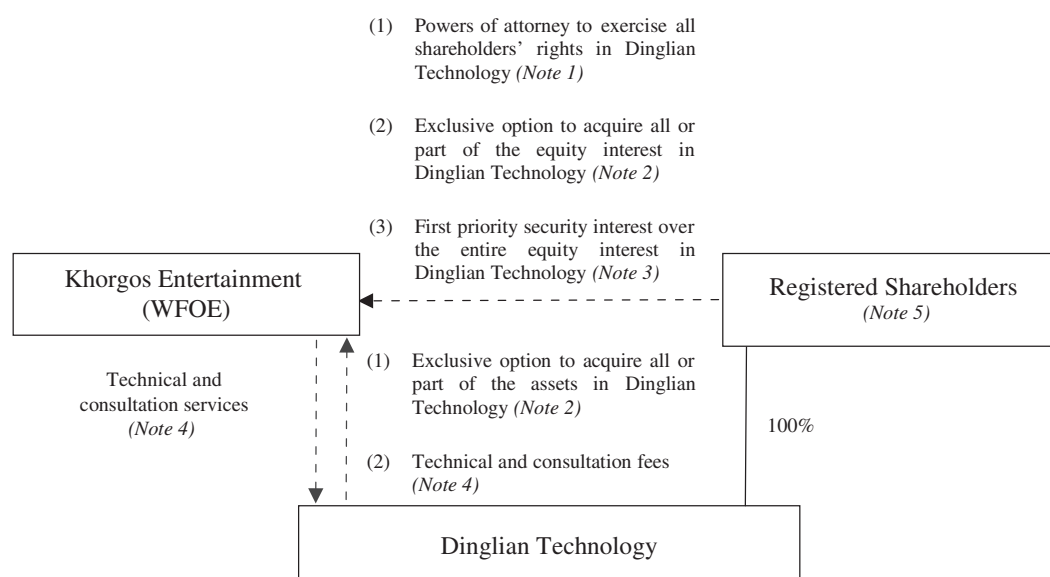
- Enhance our game development capabilities and expand our game portfolio.
- Strengthen our game publishing capabilities.

## SUMMARY

- Establish an integrated game distribution platform.
- Expand our geographic coverage and building international user base.

### CONTRACTUAL ARRANGEMENTS

The operations of our mobile game publishing business are subject to foreign ownership prohibitions under PRC laws and regulations. Our Company is therefore unable to own or hold any direct equity interest in our PRC Operating Entities. In order to enable us to maintain and exercise control over our PRC Operating Entities, we have entered into the Contractual Arrangements. The Contractual Arrangements allow us to obtain substantially all of the economic benefits of our PRC Operating Entities and consolidate their results of operations into those of our Group. See “Contractual Arrangements” on page 137 of this prospectus for further details. The following simplified diagram illustrates the key aspects of the Contractual Arrangements:



- (1) See “Contractual Arrangements — Summary of the agreements under the Contractual Arrangements and other key terms thereunder — Shareholders’ Rights Entrustment Agreement and Powers of Attorney” on page 140 of this prospectus for details.
- (2) See “Contractual Arrangements — Summary of the agreements under the Contractual Arrangements and other key terms thereunder — Exclusive Option Agreement” on page 137 of this prospectus for details.
- (3) See “Contractual Arrangements — Summary of the agreements under the Contractual Arrangements and other key terms thereunder — Share Pledge Agreement” on page 139 of this prospectus for details.
- (4) See “Contractual Arrangements — Summary of the agreements under the Contractual Arrangements and other key terms thereunder — Exclusive Business Cooperation Agreement” on page 138 of this prospectus for details.
- (5) See “Definitions” on page 30 of this prospectus for details of the Registered Shareholders.
- (6) “—————” denotes direct legal and beneficial ownership in the equity interest, and “- - ->” denotes contractual relationship.

The Foreign Investment Law of the PRC (《中華人民共和國外商投資法》) (the “**Foreign Investment Law**”) was adopted by the National People’s Congress of the PRC on 15 March 2019, which came into force as at 1 January 2020. Since its coming into effect, the Foreign Investment Law has become the legal foundation for foreign investment in the PRC. The Foreign Investment Law stipulates certain forms of foreign investment. However, the Foreign Investment Law does not explicitly stipulate the contractual arrangements as a form of foreign investment. As advised by our PRC Legal Advisers, since contractual arrangements are not specified as investments under the Foreign Investment Law, and if future laws, administrative regulations and provisions of the State Council do not incorporate contractual arrangements as a form of foreign investment, our Contractual Arrangements as a whole and each of the

## SUMMARY

agreements comprising the Contractual Arrangements will not be affected and will continue to be legal, valid and binding on the parties. Notwithstanding the above, the Foreign Investment Law stipulates that foreign investment includes “*foreign investors invest through any other methods under laws, administrative regulations or provisions prescribed by the State Council*”. 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, and then whether our Contractual Arrangements will be recognised as foreign investment, whether our Contractual Arrangements will be deemed to be in violation of the foreign investment access requirements and how the above-mentioned Contractual Arrangements will be handled are uncertain. Therefore, there is no guarantee that our Contractual Arrangements and the business of our PRC Operating Entities will not be materially and adversely affected in the future. See “Risk factors — Substantial uncertainties exist with respect to the interpretation and implementation of the Foreign Investment Law and how it may impact the viability of our current corporate structure, corporate governance and business operations.” on page 69 of this prospectus for details.

### INFORMATION OF OUR CONTROLLING SHAREHOLDERS

Immediately following the completion of the Capitalisation Issue and the Global Offering (without taking into account any Shares that may be issued pursuant to the exercise of the Over-allotment Option and any option that may be granted under the Share Option Scheme), our Company will be owned as to 40.5% by Sun JH. Sun JH is owned as to 100% by Mr. Sui, who is our executive Director and chairman of our Board. Mr. Sui and Sun JH will be our Controlling Shareholders within the meaning of the Listing Rules.

As at the Latest Practicable Date, apart from our Group’s business, none of our Controlling Shareholders, Directors and their respective close associates was engaged or had interest in any business which, directly or indirectly, competes or may compete with our Group’s principal business. See “Relationship with our Controlling Shareholders” on page 210 of this prospectus for further information in relation to our Controlling Shareholders.

### PRE-IPO INVESTMENTS

Pursuant to Rui Feng Pre-IPO Investment Agreement, Mr. Huang Xin (via HX Tech), Mr. Liang Yuezhong (via LYZ Tech), Mr. Liang Hanjun (via Laud HJ), Mr. Wu Lihui (via Wonder H), Ms. Shen Shiyin (Super SY), Mr. Ou Yajie (via Optimism YJ) and Mr. Liang Hong (via LHTH Tech) agreed to transfer in aggregate 11.5% of the issued share capital of our Company to Rui Feng at a total consideration of HK\$37,087,500.

Pursuant to Together Win Pre-IPO Investment Agreement, Mr. Huang Xin (via Hearty Xi) and Mr. Liang Yuezhong (via S63 Mobile) agreed to transfer 50% of the issued share capital of each of HX Tech and LYZ Tech, respectively, to Together Win at a total consideration of HK\$13,706,250.

## SUMMARY

Salient terms of these agreements are set out below:

	<b>Rui Feng Pre-IPO Investment Agreement</b>	<b>Together Win Pre-IPO Investment Agreement</b>
<b>Type of investments</b>	Purchase of Shares held by existing Shareholders	Purchase of shares of intermediate holding companies which own certain Shares in our Company
<b>Date of Pre-IPO Investment Agreements</b>	16 January 2019	16 January 2019 and 7 March 2019 (supplemental agreement)
<b>Effective interests in our Company immediately after the completion of the Pre-IPO Investments</b>	11.5%	2% via HX Tech and 2.25% via LYZ Tech ( <i>Note 1</i> )
<b>Effective interests in our Company upon Listing</b> ( <i>Note 2</i> )	9.32%	1.62% via HX Tech and 1.22% via LYZ Tech ( <i>Note 3</i> )
<b>Amount of consideration paid</b>	HK\$37,087,500	HK\$13,706,250
<b>Date of payment of full consideration</b>	19 February 2019	30 January 2019
<b>Basis of determination of the consideration</b>	Determination of the consideration for the Pre-IPO Investments was based on arm's length negotiations between the existing Shareholders and the Pre-IPO Investors based on business valuation of our Company of around HK\$430 million after taking into consideration the timing of the investments and the status of our business and operating entities and prospects of our business.	
<b>Discount to the Offer Price</b>	Approximately 43.1%, calculated based on the Offer Price of HK\$1.75 per Offer Share, being the mid-point of the proposed Offer Price range	Approximately 43.1%, calculated based on the Offer Price of HK\$1.75 per Offer Share, being the mid-point of the proposed Offer Price range

*Notes:*

- (1) Together Win acquired 4.25% of the effective interests in the issued share capital of our Company through the acquisition of 50% of the issued share capital of each of HX Tech and LYZ Tech, which owned 4% and 4.5% of the issued share capital of our Company, respectively.
- (2) Without taking into account any Shares which may be allotted and issued upon exercise of the Over-allotment Option or the options to be granted under the Share Option Scheme.
- (3) Upon the Listing, Together Win will effectively hold 2.84% of the issued share capital of our Company through holding 50% of the issued share capital of each of HX Tech and LYZ Tech, which will own 3.24% and 2.44% of the issued share capital of our Company, respectively.

For more details, please see “History, Reorganisation and corporate structure — Pre-IPO Investments” on page 123 of this prospectus.

## SUMMARY

### SUMMARY OF KEY FINANCIAL INFORMATION

#### Consolidated statements of profit or loss and other comprehensive income

	FY2017		FY2018		FY2019	
	RMB'000	% to revenue	RMB'000	% to revenue	RMB'000	% to revenue
<b>Revenue</b>	107,267	100.0	151,214	100.0	187,710	100.0
Cost of sales	(67,267)	(62.7)	(94,199)	(62.3)	(111,897)	(59.6)
<b>Gross profit</b>	40,000	37.3	57,015	37.7	75,813	40.4
Other income	56	0.1	872	0.6	801	0.4
Other gains and losses	–	–	44	0.0	596	0.3
Impairment loss recognised						
on trade receivables, net	(41)	(0.0)	(97)	(0.1)	(73)	(0.0)
Selling and marketing expenses	(1,666)	(1.6)	(143)	(0.1)	–	–
Administrative expenses	(2,706)	(2.5)	(4,147)	(2.7)	(5,972)	(3.2)
Interest on lease liabilities	–	–	–	–	(6)	(0.0)
Research and development expenses	(4,169)	(3.9)	(4,292)	(2.8)	(9,681)	(5.2)
Listing expenses	–	–	(4,810)	(3.2)	(11,145)	(5.9)
<b>Profit before taxation</b>	31,474	29.4	44,442	29.4	50,333	26.8
Tax (expense) credit	(20)	(0.0)	(5,051)	(3.3)	167	0.1
<b>Profit and total comprehensive income for the year</b>	<b>31,454</b>	<b>29.4</b>	<b>39,391</b>	<b>26.1</b>	<b>50,500</b>	<b>26.9</b>

#### Revenue

Our revenue increased rapidly during the Track Record Period. Our revenue increased from RMB107.3 million for FY2017 to RMB151.2 million for FY2018 primarily because we started to publish our self-developed games, namely Hollow Storm\* (虛空風暴) and Princess in Distress\* (公主遇險記) in 2018. Our revenue further increased to RMB187.7 million for FY2019 mainly due to (i) the increase in the number of third party games we co-published in FY2019; (ii) the increase in the number of operating days of two self-developed games. Such increase was partially offset by the fact that we did not record any revenue from the development and sales of customised software and games in FY2019.

#### Profit for the year

Our profit for the year increased from RMB31.5 million for FY2017 to RMB39.4 million for FY2018 mainly attributable to the increase in our revenue and gross profit and offset by the listing expenses we incurred and the increase in income tax expenses. Our profit for the year further increased to RMB50.5 million for FY2019 mainly due to the increase in the gross profit and tax credit recorded in FY2019 and partially offset by the increase in research and development expenses and listing expenses incurred in the year.

See “Financial information” on page 233 of this prospectus for details.

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### Summary consolidated statements of financial position

	<b>As at 31 December</b>		
	<b>2017</b>	<b>2018</b>	<b>2019</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current assets	61,499	107,609	135,800
Current liabilities	22,593	35,818	21,073
Net current assets	38,906	71,791	114,727
Non-current assets	120	6,695	14,259
Net assets	39,026	78,486	128,986

### Summary consolidated statements of cash flows

	<b>FY2017</b>	<b>FY2018</b>	<b>FY2019</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Net cash generated from operating activities	21,971	10,978	28,942
Net cash generated from (used in) investing activities	3,713	(4,526)	(10,120)
Net cash used in financing activities	(78)	(1,422)	(2,246)
	<hr/>	<hr/>	<hr/>
Net increase in cash and cash equivalents	25,606	5,030	16,576
Cash and cash equivalents at the beginning of the year	1,772	27,277	32,323
Effect of foreign exchange rate changes	(101)	16	70
	<hr/>	<hr/>	<hr/>
Cash and cash equivalents at the end of the year, represented by bank balances and cash	<u>27,277</u>	<u>32,323</u>	<u>48,969</u>

#### *Net cash from operating activities*

Our net cash from operating activities decreased from RMB22.0 million for FY2017 to RMB11.0 million for FY2018 mainly due to the down payments of RMB14.0 million we made to game publishers for securing publishing rights of new games and longer turnover of our trade receivables in FY2018. Net cash generated from operating activities increased to RMB28.9 million for FY2019 mainly due to the increase in the proceeds from our game publishing business, which was partially offset by the increase in down payments to game publishers by RMB13.4 million in FY2019.

See “Financial information — Liquidity and financial resources — Cash flow — Cash flow generated from operating activities” on page 256 of this prospectus for details.

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### Key financial ratio

	As at /for FY2017	As at /for FY2018	As at /for FY2019
Current ratio	2.7	3.0	6.4
Quick ratio	2.7	3.0	6.4
Gearing ratio	0.0%	0.0%	0.0%
Net debt to equity ratio	N/A	N/A	N/A
Return on equity	135.0%	67.0%	48.7%
Return on assets	85.0%	44.8%	38.2%
Gross profit margin	37.3%	37.7%	40.4%
Net profit margin	29.4%	26.1%	26.9%

For more information on our key financial ratios, see “Financial information — Key financial ratios” on page 268 of this prospectus.

### STATISTICS OF THE GLOBAL OFFERING AND USE OF PROCEEDS

**Number of Offer Shares:** 100,000,000 Shares comprising 76,000,000 new Shares and 24,000,000 Sale Shares (subject to the Over-allotment Option)

**Over-allotment Option:** Up to an aggregate of 15,000,000 additional Offer Shares, representing 15% of the initial number of Offer Shares

**Offering structure:**

Hong Kong Public Offering: 10,000,000 Shares, representing 10% of the Offer Shares (subject to reallocation)

International Offering: 90,000,000 Shares, comprising 66,000,000 new Shares and 24,000,000 Sale Shares being initially offered by our Company and the Selling Shareholders, respectively for subscription and/or purchase pursuant to the Global Offering, representing 90% of the Offer Shares (subject to reallocation)

**Offer Price range:** HK\$1.63 to HK\$1.87 per Offer Share

**Board lot:** 2,000 Shares

	Based on minimum indicative Offer Price of HK\$1.63 per Offer Share	Based on maximum indicative Offer Price of HK\$1.87 per Offer Share
<b>Market capitalisation<sup>(1)</sup>:</b>	HK\$652.0 million	HK\$748.0 million
<b>Unaudited pro forma adjusted consolidated net tangible assets per Share:<sup>(2)</sup></b>	HK\$0.59	HK\$0.64

## SUMMARY

### Use of proceeds<sup>(3)</sup>:

Approximately HK\$99.8 million

- approximately HK\$33.0 million, or approximately 33.1% of the net proceeds, will be used to enhance our game development capabilities and to expand our game portfolio
- approximately HK\$46.0 million, or approximately 46.1% of the net proceeds, will be used to strengthen our publishing capabilities
- approximately HK\$13.7 million, or approximately 13.7% of the net proceeds, will be used to establish an integrated game distribution platform which will allow mobile game developers to develop and upload mobile games, game users to download, share and purchase games, as well as top up and make in-game purchases
- the remaining balance of approximately HK\$7.1 million, or approximately 7.1% of the net proceeds, will be used to expand our geographic coverage and build international user base

### Notes:

1. Based on the assumptions that the Global Offering is completed and 400,000,000 Shares are in issue, and do not take into account of any Shares which may be issued pursuant of the exercise of the Over-allotment Option or Shares which may be issued upon the exercise of options granted under the Share Option Scheme.
2. For the assumptions and calculation method, please see the unaudited pro forma financial information set out in Appendix II to this prospectus.
3. Based on an Offer Price of HK\$1.75 per Offer Share (being the mid-point of the indicative Offer Price range) and do not take into account of any Shares which may be issued pursuant of the exercise of the Over-allotment Option or Shares which may be issued upon the exercise of options granted under the Share Option Scheme.

We will not receive any of the proceeds from the sale of the Sale Shares by the Selling Shareholders. We estimate that the net proceeds to be received by the Selling Shareholders from the sale of the Sale Shares (after deduction of the underwriting fees and commissions and estimated listing expenses payable by the Selling Shareholders, based on the Offer Price of HK\$1.75 per Offer Share and the Over-allotment Option is not exercised) are approximately HK\$31.5 million.

Further details of the use of the proceeds from the Global Offering are set forth in “Future plans and use of proceeds — Use of proceeds” on page 272 of this prospectus.

### DIVIDENDS

We did not declare nor pay any dividend during the Track Record Period and up to the Latest Practicable Date. After the completion of the Global Offering, Shareholders will be entitled to receive dividends declared by our Company. The declaration of, payment and amount of dividends will be subject to the discretion of our Board. We do not have a fixed dividend policy or a pre-determined dividend payout ratio. Our Board may recommend a payment of dividend in the future after taking into account our financial results, Shareholders’ interest, general business conditions, strategies and future expansion needs, our capital requirements and availability, possible effects on liquidity and financial position of our Company and such other factors as our Board may consider relevant.



## SUMMARY

### RECENT DEVELOPMENT

Based on the unaudited management accounts of our Group for the four months ended 30 April 2020, our revenue, gross profit and net profit increased as compared to the same period in 2019 primarily due to increase in gross billings from our self-developed games for the four months ended 30 April 2020. Our gross profit margin for the four months ended 30 April 2020 slightly increased mainly because our gross profit margin of publishing self-developed games was higher, and the revenue contribution from publishing self-developed games increased as compared to the same period in 2019. Our net profit margin for the four months ended 30 April 2020 as compared to the same period in 2019 also increased mainly due to the increase in our gross profit margin coupled with the decrease in research and development expenses we incurred in the period.

Our Directors have confirmed that, up to the date of this prospectus, there has been no material adverse change in our financial or trading position since 31 December 2019, being the end of the period reported in the Accountants' Report set out in Appendix I to this prospectus, and there has been no event since 31 December 2019 which would materially affect the information shown in the Accountants' Report set out in Appendix I to this prospectus.

### Recent regulatory changes

The regulatory environment of the mobile game industry is evolving rapidly. On 10 July 2019, the MOC issued the Decision on Abolishing Online Games Measures and Measures for Planning and Administration of Tourism Development (《文化和旅遊部關於廢止〈網絡遊戲管理暫行辦法〉和〈旅遊發展規劃管理辦法〉的決定》) (the “**Decision**”) pursuant to which the Online Games Measures were abolished, which means the MOC had removed all its approval and registration procedures and measures in relation to online games, and the MOC is no longer responsible for administration and supervision of the industry of online games. However, in accordance with the Online Publishing Provisions and official online guidelines relating to pre-approval by the NPPA for publication of online games, in order to apply for publication of an domestically-developed online game, an application and accompanying application materials shall be submitted to the publication administrative department at the level of the province, autonomous region or municipality. Upon approval by the publication administrative department of the province, autonomous region or municipality, the application will be further submitted to the NPPA for final approval, together with views of local publication administrative department and relevant application materials. If the NPPA makes a decision to approve the application, the online game will be allowed to be published online and a game publication number will be issued. As at the Latest Practicable Date, our Group began to launch our self-developed or third party games online and carry out subsequent operation after the pre-approval and issuance of game publication numbers by the NPPA. Therefore, our Directors are of the view that the Decision did not have any material negative impact on the business operation of our Group. See “Regulation overview — Laws and regulations governing online games industry and business in China — Regulatory authorities” on page 100 for details.

Furthermore, on 25 October 2019, the NPPA issued the Notice on Preventing Minors from Indulging in Online Games (《國家新聞出版署關於防止未成年人沉迷網絡遊戲的通知》) (the “**Notice**”) which became effective on 1 November 2019. The Notice sets out several requirements on online game operation, which include implementation of the real-name registration system, restrictions on game time, duration for playing online games and top-up amounts by minors, exploration of appropriate-age reminding system. See “Regulatory overview — Laws and regulations governing online games industry and business in China — Regulations on the protection of the minors in online games” on page 101 for details. Our Directors are of the view that the Notice did not have any material impact on the business operation of our Group based on that (i) our target game players have principally been adults; (ii) the average ARPPU of our self-developed games during the Track Record Period were lower than the

## SUMMARY

monthly payment limit for minor users between 8 and 16 years old under the Notice; (iii) we have implemented necessary measures to comply with the Notice as at Latest Practicable Date, including adopting a mandatory real-name registration system, incorporating restrictions on topping-up system, inserting and enhancing program codes to identify the players age and monitor their game time and game duration and introducing relevant internal control measures, and such measures have not imposed significant burden on our manpower and financial resources; (iv) we co-publish an extensive portfolio of games and we enjoy the flexibility to select and focus on different co-publishing third party games; and (v) there has been no material adverse change to the financial position of our Group since the implementation of the Notice. In addition, the number of users of our games distributed either on third party platforms or our self-operated platform that were minors (being persons who are under the age of 18 years old) were insignificant and their contribution to the gross billing of our games were trivial during the Track Record Period. As such, our Directors believe that revenue contribution from minor to our game publishing business is insignificant. See “Business — Legal proceedings and compliance — Compliance with the Notice on Preventing Minors from Indulging in Online Games” from pages 205 to 207 for details.

### **Outbreak of coronavirus**

Since December 2019, there has been a outbreak of coronavirus in China, Hong Kong and other countries (the “**Coronavirus Outbreak**”). As a result of this outbreak, all business entities in Guangxi and many other areas in China except those which are necessary for the prevention and control of the epidemic were generally required by the relevant PRC authorities to suspend their operations and services with resumption postponed to 10 February 2020 following the Chinese New Year holidays. For a short period of business days in China after the Chinese New Year holidays, our staff were not required to work in office, nonetheless, we were able to continue our cooperation with our publishing partners through electronic media and telephone and remote access to our information technology system. In the course of the Coronavirus Outbreak and up to the Latest Practicable Date, our mobile games can continue to be downloaded and played by existing or new players without any delay in our publishing schedule and none of our published self-developed games or co-published third party games was suspended due to the Coronavirus Outbreak. Furthermore, as at the Latest Practicable Date, there was no delay caused by the Coronavirus Outbreak on the development, launch and upgrade of our self-developed games in our development or publishing pipeline. As such, there is no material interruption to our business and our Directors are of the view that there is minimal impact to our business, including daily operations, senior management and employees.

However, in case the Coronavirus Outbreak is prolonged and the PRC government continues to restrict or limit the working days in the coming few months, our staff in our in-house development team would not be able to access our various sophisticated systems on-site for game development, upgrades and maintenances etc., which may result in a delay in the development and launching of new games and the upgrades of our existing self-developed games from our planned schedule. The provision of timely user services such as handling user consultation and complaints in relation to top-up and payment services by our publishing team may also be interrupted.

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

## SUMMARY

In the worst case scenario that the Coronavirus Outbreak will be further prolonged such that our business has to be suspended and all transactions with our customers and suppliers are forced to be suspended, our Directors estimate that our Group will be financially viable for around 28 months from the Latest Practicable Date, taking into account our latest bank balances and cash and proceeds from the Global Offering, and based on the key assumptions that: (i) we will not generate revenue due to the suspension of businesses; (ii) we will not incur publishing related costs corresponding to our revenue due to the suspension of works; (iii) we will continue to incur operating and administrative expenses (including staff costs and operating leases rentals) at a level not less than that in FY2019; (iv) there will not be any internal or external fundings including advance from shareholders or bank borrowings; and (v) we will continue to implement our future plans (save for publishing third party games and self-developed games) as detailed in “Future plan and use of proceeds” on page 272 of this prospectus. The above analysis under the worst case scenario is for illustrative purpose only and our Directors currently assessed that the likelihood of such situation would be remote.

Despite uncertainties brought about by the Coronavirus Outbreak in China (see “Risk factors — An outbreak of any widespread public health problem, if uncontrolled, could have a negative impact on our business operations.” for details), taking into account the information technology nature of our business which is, in general, relatively less affected by the restrictions of people’s mobility as a result of the Coronavirus Outbreak, and based on all available information to our Group up to the Latest Practicable Date, our Directors consider that the Coronavirus Outbreak will not have a significant impact on our business and results of operation as a whole.

### LISTING EXPENSES

Our estimated listing expenses primarily consist of legal and professional fees, including underwriting commission, in relation to the Listing. Assuming the Offer Price of HK\$1.75 per Offer Share, being the mid-point of the indicative range of the Offer Price stated in this prospectus, the total listing expenses are estimated to be approximately HK\$43.7 million (equivalent to RMB40.0 million), which will be borne by the Selling Shareholders and our Group on 24:76 proportion, amounting to HK\$10.5 million (equivalent to RMB9.6 million) and HK\$33.2 million (equivalent to RMB30.4 million), respectively. As such, the listing expenses attributable to our Group represents 24.9% of the gross proceeds to be received by our Group. Of such amount to be borne by the Selling Shareholders in connection with the sale of Sale Shares, HK\$3.8 million (equivalent to RMB3.5 million) will be reimbursed by the Selling Shareholders to our Group and HK\$6.7 million (equivalent to RMB6.1 million) will be contributed by the Selling Shareholders in their capacity as Shareholders and be accounted for as capital contribution to our Group. Of the aggregate listing expenses of HK\$43.7 million (equivalent to RMB40.0 million), there were HK\$5.3 million (equivalent to RMB4.8 million) and HK\$12.2 million (equivalent to RMB11.1 million) being charged to the consolidated statements of profit or loss and other comprehensive income for FY2018 and FY2019. For the remaining amount of HK\$26.2 million (equivalent to RMB24.1 million), approximately HK\$3.8 million (equivalent to RMB3.5 million) will be borne by the Selling Shareholders as stated above, and our Group expects to further charge HK\$10.4 million (equivalent to RMB9.5 million) to profit or loss, while HK\$12.0 million (equivalent to RMB11.1 million) is expected to be directly attributable to the issue of new Shares and be accounted for a deduction from equity in accordance with the relevant accounting standards. The estimated listing expenses are subject to adjustments based on the actual amount incurred or to be incurred.

## SUMMARY

### MATERIAL RISK FACTORS

Our business and industry is subject to a number of risks and uncertainties. Some highlighted risks are as follows:

- Our steady growth during the Track Record Period may not be indicative of our future growth, and our limited operating history makes it difficult to evaluate our growth prospects and future financial results.
- If we fail to maintain our relationships with our publishing partners for publishing and promoting our games, our business, financial condition, and results of operations may be materially and adversely affected.
- If we fail to continue to successfully market and distribute third party games, our business and revenue growth may not be sustainable.
- If we fail to continue to release successful new self-developed games that attract and retain a larger user base, our business and revenue growth potential may be affected.
- Laws and regulations governing the internet industry and related businesses in China, including the mobile gaming business, are continually evolving and may be amended or replaced by newly adopted laws and regulations from time to time, which may expose our business operations to significant uncertainties.
- We face competition from a broader entertainment industry. Our existing and prospective users may be attracted to competing forms of entertainment such as television, movies and sports, social network services, as well as other recreational options on the internet.
- Failure to obtain, renew, or retain requisite licences, permits or approvals or failure to comply with applicable laws and regulations by us or by our publishing partners may adversely affect our ability to conduct our business.
- We depend heavily on our key personnel and our ability to attract and retain talented personnel. If we lose their services, our business may be seriously harmed.
- We may be required to recognise impairment losses and increased amortisation costs on our intangible assets, which would materially and adversely affect our results of operation.

As different investors may have different interpretations and standards for determining the materiality of a risk, you should carefully consider all of the information set out in this prospectus, including the risks and uncertainties described in “Risk factors” from pages 39 to 72 of this prospectus, before making an investment in the Offer Shares.

## DEFINITIONS

*In this prospectus, unless the context otherwise requires, the following expressions have the following meanings.*

“Accountants’ Report”	the accountants’ report prepared by Deloitte Touche Tohmatsu, our reporting accountants, the text of which is set out in Appendix I to this prospectus
“affiliate”	with respect to any specified person, any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person
“Application Form(s)”	<b>WHITE</b> Application Form(s), <b>YELLOW</b> Application Form(s) and <b>GREEN</b> Application Form(s) or, where the context so requires, any of them
“Articles of Association” or “Articles”	the amended and restated articles of association of our Company conditionally adopted on 19 June 2020 effective upon the Listing and as amended from time to time, a summary of which is set out in Appendix III to this prospectus
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Beihai Dinglian”	Beihai Dinglian Technology Company Limited* (北海頂聯科技有限公司), a company established under the laws of the PRC with limited liability on 28 September 2017 and wholly-owned by Dinglian Technology
“Board” or “Board of Directors”	the board of Directors
“Business Day” or “business day”	any day (other than Saturday, Sunday or public holiday in Hong Kong) on which banks in Hong Kong are generally open for normal banking business
“BVI”	the British Virgin Islands
“CAGR”	compounded annual growth rate
“Capitalisation Issue”	the issue of 224,000,000 Shares to be made upon capitalisation of certain sums standing to the credit of the share premium account of our Company referred to in “Statutory and general information — Information about our Company — 3. Resolutions in writing of our Shareholders passed on 19 June 2020” in Appendix IV to this prospectus
“Cayman Islands Companies Law” or “Companies Law”	the Companies Law (as revised) of the Cayman Islands as amended and supplemented from time to time
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC

## DEFINITIONS

“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“CIC”	China Insights Industry Consultancy Limited, an industry research consultant and is an Independent Third Party
“CIC Report”	the industry research report commissioned by us and prepared by CIC on the mobile game publishing and co-publishing industry in the PRC in which our Group operates
“close associate(s)”	has the meaning ascribed to it under the Listing Rules
“Co-managers”	Eddid Securities and Futures Limited, Gransing Securities Co., Limited and GEO Securities Limited
“Companies Ordinance”	Companies Ordinance (Chapter 622 of the Laws of Hong Kong) as amended, modified and supplemented from time to time
“Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice”	Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong) as amended, modified and supplemented from time to time
“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong) as amended and supplemented from time to time
“Company”, “our Company”, “our”, “we” or “us”	Sino-Entertainment Technology Holdings Limited (新娛科技控股有限公司), the holding company of our Group and the listing vehicle for the Listing, which was incorporated in the Cayman Islands as an exempted company with limited liability on 18 April 2018
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Contractual Arrangements”	the series of contractual arrangements entered into by, among others, Khorgos Entertainment, the Registered Shareholders and Dinglian Technology, details of which are described in “Contractual Arrangements” in this prospectus

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“Controlling Shareholder(s)”	has the meaning ascribed to it under the Listing Rules and in the case of our Company, refer to the controlling shareholders of our Company, namely Mr. Sui and Sun JH
“core connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Countries subject to International Sanctions”	countries regarding which governments such as the United States or Australia, or governmental organisations, such as the European Union or the United Nations, have, through executive order, passing of legislation or other governmental means, implemented measures that impose economic sanctions against such countries or against targeted industry sectors, groups of companies or persons, and/or organisations within such countries
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會)
“Deed of Indemnity”	a deed of indemnity dated 19 June 2020 and signed by our Controlling Shareholders in favour of our Company (on its own behalf and as trustee for each member of our Group), particular of which are set out in “Statutory and general information — Other information — 16. Estate duty, tax and other indemnity” in Appendix IV to this prospectus
“Dinglian (International)”	Luocheng Dinglian (International) Limited (羅城仡佬族自治縣頂聯科技(國際)有限公司), a company incorporated under the laws of Hong Kong with limited liability on 2 February 2017 and wholly owned by Sino-Entertainment (HK)
“Dinglian Technology”	Luocheng Mulao Autonomous County Dinglian Technology Company Limited* (羅城仡佬族自治縣頂聯科技有限責任公司), a company established under the laws of the PRC with limited liability on 2 December 2014
“Director(s)”	the director(s) of our Company
“extreme conditions”	extreme conditions caused by a super typhoon as announced by the Government of Hong Kong
“FY2017”	the financial year ended 31 December 2017
“FY2018”	the financial year ended 31 December 2018
“FY2019”	the financial year ended 31 December 2019
“GDP”	gross domestic product, the total market value of all the goods and services produced within the borders of a nation during a specified period of time

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“General Mandate”	the general mandate granted to our Directors by our Shareholders in relation to the issue of new Shares, further information of which is set forth in “Statutory and general information — Information about our Company — 3. Resolutions in writing of our Shareholders passed on 19 June 2020” in Appendix IV to this prospectus
“Global Offering”	the Hong Kong Public Offering and the International Offering
“Good CH”	Good CH Holding Ltd., a company incorporated under the laws of the BVI with limited liability on 11 April 2018 and wholly-owned by Mr. Gao Changhai
“GREEN Application Form(s)”	the application form(s) to be completed by the <b>HK eIPO White Form</b> Service Provider
“Group”, “we”, “us” or “our”	our Company, our subsidiaries at the relevant time and the PRC Operating Entities (the financial results of which have been consolidated and accounted for as subsidiaries of our Company by virtue of the Contractual Arrangements) or, where the context otherwise requires, in respect of the period prior to our Company becoming the holding company of its present subsidiaries pursuant to the Reorganisation, its present subsidiaries and the businesses operated by such subsidiaries
“Hearty Xi”	Hearty Xi Holding Ltd., a company incorporated under the laws of the BVI with limited liability on 11 April 2018 and wholly-owned by Mr. Huang Xin
“HK dollars” or “HK\$” and “cents”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
“ <b>HK eIPO White Form</b> ”	the application for the Hong Kong Offer Shares to be issued in applicant’s own name by submitting applications online through the designated website of <b>HK eIPO White Form</b> at <a href="http://www.hkeipo.hk">www.hkeipo.hk</a> or the <b>IPO App</b>
“ <b>HK eIPO White Form</b> Service Provider”	the <b>HK eIPO White Form</b> service provider designated by our Company or specified on the designated website at <a href="http://www.hkeipo.hk">www.hkeipo.hk</a> or the <b>IPO App</b>
“HKAS”	Hong Kong Accounting Standards
“HKFRS”	Hong Kong Financial Reporting Standards
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC



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“Hong Kong” or “HKSAR” or “HK”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Hong Kong Branch Share Registrar”	Tricor Investor Services Limited, the branch share registrar and transfer office of our Company in Hong Kong
“Hong Kong Offer Shares”	the 10,000,000 Shares initially being offered for subscription under the Hong Kong Public Offering, subject to re-allocation as described in “Structure and conditions of the Global Offering” in this prospectus
“Hong Kong Public Offering”	the offer of the Hong Kong Offer Shares for subscription by the members of the public in Hong Kong for cash at the Offer Price (plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%), payable in full on application, and subject to the terms and conditions described in this prospectus and the Application Forms
“Hong Kong Underwriters”	the underwriters of the Hong Kong Public Offering
“Hong Kong Underwriting Agreement”	the conditional underwriting agreement dated 29 June 2020 relating to the Hong Kong Public Offering entered into by, among others, our Company, our executive Directors, our Controlling Shareholders, the Sole Sponsor, the Joint Global Coordinators and the Hong Kong Underwriters, particulars of which are summarised in “Underwriting” in this prospectus
“HX Tech”	HX Tech Holdings Limited, a company incorporated under the laws of the BVI with limited liability on 11 May 2018 and owned as to 50% by each of Hearty Xi and Together Win upon Pre-IPO Investments
“ICP Licence”	a value-added telecommunication business operation licence issued by the relevant PRC government authorities with a service scope of information services
“Independent Third Party(ies)”	an individual(s) or a company(ies) who or which, to the best of our Directors’ knowledge, information and belief, having made all reasonable enquiries, is/are independent of and not connected with (within the meaning of the Listing Rules) our Company and its connected persons
“International Offer Shares”	the 90,000,000 Shares comprising 66,000,000 new Shares and 24,000,000 Sale Shares being initially offered by our Company and the Selling Shareholders, respectively for subscription and/or purchase pursuant to the International Offering, subject to re-allocation as described in “Structure and conditions of the Global Offering” in this prospectus

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“International Offering”	conditional placing of the International Offer Shares at the Offer Price to selected professional, institutional and other investors as set out in “Structure and conditions of the Global Offering” in this prospectus
“International Sanctions”	all applicable laws and regulations related to economic sanctions, export controls, trade embargoes and wider prohibitions and restrictions on international trade and investment related activities, including those adopted, administered and enforced by the government of the United States, the European Union and its member states, the United Nations or the government of Australia
“International Sanctions Legal Advisers”	Hogan Lovells, our legal advisers as to International Sanctions laws in connection with the Listing
“International Underwriters”	the Underwriters of the International Offering
“International Underwriting Agreement”	the conditional underwriting and placing agreement relating to the International Offering expected to be entered into on or about 6 July 2020 by, among others, our Company, our executive Directors, our Controlling Shareholders, the Selling Shareholders, the Sole Sponsor, the Joint Global Coordinators and the International Underwriters, particulars of which are summarised in “Underwriting” in this prospectus
“ <b>IPO App</b> ”	the mobile application for <b>HK eIPO White Form</b> service which can be downloaded by searching “ <b>IPO App</b> ” in App Store or Google Play Store or downloaded at <a href="http://www.hkeipo.hk/IPOApp">www.hkeipo.hk/IPOApp</a> or <a href="http://www.tricorglobal.com/IPOApp">www.tricorglobal.com/IPOApp</a>
“Joint Bookrunners”	Huajin Securities (International) Limited, Zhongtai International Securities Limited, China Tonghai Securities Limited, BOCOM International Securities Limited, Guosen Securities (HK) Capital Company Limited, Soochow Securities International Brokerage Limited and Orient Securities (Hong Kong) Limited
“Joint Global Coordinators” or “Joint Lead Managers”	Huajin Securities (International) Limited, Zhongtai International Securities Limited and China Tonghai Securities Limited
“Khorgos Dinglian”	Khorgos Dinglian Interactive Network Technological Company Limited* (霍爾果斯頂聯互動網絡科技有限公司), a company established under the laws of the PRC with limited liability on 19 July 2017, one of our PRC Operating Entities and wholly-owned by Dinglian Technology

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“Khorgos Entertainment”	Khorgos Entertainment Information Technology Company Limited* (霍爾果斯娛科信息技術有限公司), formerly known as Huocheng Entertainment Information Technology Company Limited* (霍城娛科信息技術有限公司), a company established under the laws of the PRC with limited liability on 20 September 2018 and wholly-owned by Sino-Entertainment (HK)
“Knowledge ZH”	Knowledge ZH Holding Ltd., a company incorporated under the laws of the BVI with limited liability on 16 April 2018 and wholly-owned by Mr. Ke Zhenhua
“Latest Practicable Date”	21 June 2020, being the latest practicable date prior to the printing of this prospectus for the purpose of ascertaining certain information in this prospectus
“Laud HJ”	Laud HJ Holding Ltd., a company incorporated under the laws of the BVI with limited liability on 16 April 2018 and wholly-owned by Mr. Liang Hanjun
“Leap HJ”	Leap HJ Holding Ltd., a company incorporated under the laws of the BVI with limited liability on 11 April 2018 and wholly-owned by Mr. Li
“LHTH Tech”	LHTH Tech Holding Ltd., a company incorporated under the laws of the BVI with limited liability on 11 April 2018 and wholly-owned by Mr. Liang Hong
“Listing”	listing of the Shares on the Main Board
“Listing Committee”	the listing sub-committee of the board of directors of the Stock Exchange
“Listing Date”	the date, expected to be on or about Wednesday, 15 July 2020, on which dealings in the Shares on the Stock Exchange first commence
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended, modified and supplemented from time to time
“LYZ Tech”	LYZ Tech Holding Ltd., a company incorporated under the laws of the BVI with limited liability on 11 April 2018 and owned as to 50% by each of S63 MOBILE and Together Win upon Pre-IPO Investments
“m <sup>3</sup> ”	cubic metre(s)
“Macau”	the Macau Special Administrative Region of the People’s Republic of China

## DEFINITIONS

“Main Board”	the Main Board of the Stock Exchange
“Memorandum” or “Memorandum of Association”	the memorandum of association of our Company and as amended from time to time
“MIIT”	the Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部)
“MOC”	the Ministry of Culture of the PRC (中華人民共和國文化部), which is reformed and known as the Ministry of Culture and Tourism of the PRC (中華人民共和國文化和旅遊部)
“MOFCOM”	the Ministry of Commerce of the PRC (中華人民共和國商務部)
“Mr. He”	Mr. He Shaoning (何紹寧), an executive Director
“Mr. Li”	Mr. Li Haijun (李海軍), an executive Director
“Mr. Sui”	Mr. Sui Jiaheng (隋嘉恒), the chairman of our Board, an executive Director and one of our Controlling Shareholders
“NEEQ”	National Equities Exchange and Quotations of the PRC
“NPPA”	the National Press and Publication Administration of the PRC (中華人民共和國國家新聞出版署), a newly formed regulatory authority to regulate the press and publication industry in 2018
“NRTA”	the National Radio and Television Administration of the PRC (中華人民共和國國家廣播電視總局)
“OFAC”	the Office of Foreign Assets Control of the U.S. Department of the Treasury
“Offer Price”	the final offer price per Offer Share in Hong Kong dollars (exclusive of brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%) at which the Offer Shares are to be subscribed for or purchased pursuant to the Global Offering, to be determined in the manner further described in “Structure and Conditions of the Global Offering — Pricing and allocation” in this prospectus
“Offer Share(s)”	the Hong Kong Offer Shares and the International Offer Shares
“Optimism YJ”	Optimism YJ Holding Ltd., a company incorporated under the laws of the BVI with limited liability on 11 April 2018 and wholly-owned by Mr. Ou Yajie

## DEFINITIONS

“Over-allotment Option”	the option expected to be granted by our Company to the Joint Global Coordinators (for themselves and on behalf of the International Underwriters) under the International Underwriting Agreement to require our Company to issue up to an additional 15,000,000 Shares, representing 15% of the number of Offer Shares initially available under the Global Offering at the Offer Price, details of which are set out in “Structure and conditions of the Global Offering” in this prospectus
“PRC” or “China”	the People’s Republic of China excluding, for the purpose of this prospectus, Hong Kong, Macau and Taiwan
“PRC Legal Advisers”	Jingtian & Gongcheng, the legal advisers to our Company as to the PRC law
“PRC Operating Entities”	the entities we control through the Contractual Arrangements, being Dinglian Technology, Beihai Dinglian and Khorgos Dinglian, each of which has been separately defined in this section
“Pre-IPO Investment Agreements”	collectively, Rui Feng Pre-IPO Investment Agreement and Together Win Pre-IPO Investment Agreement
“Pre-IPO Investments”	the pre-IPO investments in our Group made by the pre-IPO Investors and completed on 7 March 2019 on the terms as more particularly set out in “History, Reorganisation and corporate structure — Pre-IPO Investments” in this prospectus
“Pre-IPO Investors”	collectively refers to Rui Feng and Together Win
“Predecessor Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) as in force from time to time before 3 March 2014
“Price Determination Agreement”	the agreement to be entered into by the Joint Global Coordinators (for themselves and on behalf of the other Underwriters) and our Company (for ourselves and on behalf of the Selling Shareholders) on the Price Determination Date to record and fix the Offer Price
“Price Determination Date”	the date, expected to be on or around Monday, 6 July 2020, on which the Price Determination Agreement is entered into but in any event no later than Monday, 13 July 2020
“Registered Shareholder(s)”	direct shareholder(s) of Dinglian Technology, being Mr. Sui, Mr. Li, Mr. Huang Xin, Mr. Liang Yuezhong, Ms. Shen Shiyin, Mr. Wu Lihui, Mr. Liang Hanjun, Mr. Liang Hong, Mr. Ou Yajie, Mr. Gao Changhai and Mr. Ke Zhenhua
“Regulation S”	Regulation S under the U.S. Securities Act

## DEFINITIONS

“Relevant Countries”	Cote d’Ivoire, Egypt, Iraq, Iran, Ukraine
“Reorganisation”	the corporate reorganisation of our Group in preparation for the Listing, particulars of which are summarised in “History, Reorganisation and corporate structure — Reorganisation” in this prospectus
“Repurchase Mandate”	the general mandate granted to our Directors by our Shareholders in relation to the repurchase of our Shares, further information of which is set forth in “Statutory and general information — Information about our Company — 7. Securities repurchase mandate” in Appendix IV to this prospectus
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“Rui Feng”	Rui Feng Greater China TMT Fund, one of our Pre-IPO Investors, a close-ended investment fund incorporated as an exempted company under the laws of the Cayman Islands on 24 April 2018 and wholly-owned by Mr. Zhou Yurong, an Independent Third Party, holding one voting share (representing 100% voting power) in Rui Feng
“Rui Feng Pre-IPO Investment Agreement”	the equity transfer agreement dated 16 January 2019 entered into by Mr. Huang Xin, Mr. Liang Yuezhong, Mr. Liang Hanjun, Mr. Wu Lihui, Ms. Shen Shiyin, Mr. Ou Yajie, Mr. Liang Hong and Rui Feng, on terms as more particularly set out in “History, Reorganisation and corporate structure — Pre-IPO Investments” in this prospectus
“S63 Mobile”	S63 Mobile Technology Ltd., a company incorporated under the laws of the BVI with limited liability on 11 May 2018 and wholly-owned by Mr. Liang Yuezhong
“SAFE”	the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
“Sale Shares”	the aggregate of 24,000,000 Offer Shares offered by the Selling Shareholders at the Offer Price under the Global Offering
“Sanctioned Person(s)”	certain person(s) and identity(ies) listed on OFAC’s Specially Designated Nationals and Blocked Persons List or other restricted parties lists maintained by the U.S., European Union, United Nations or Australia
“SAPPRFT”	the State Administration of Press and Publication, Radio, Film, and Television of the PRC (中華人民共和國國家出版廣電總局), which is reformed into NRTA, NPPA and China Film Administration (中華人民共和國國家電影局)

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“SAT”	the State Administration of Taxation of the PRC (currently known as the State Taxation Administration) (中華人民共和國國家稅務總局)
“SDN List”	the list of Specially Designated Nationals and Blocked Persons maintained by OFAC, which sets forth individuals and entities that are subject to its sanctions and restricted from dealing with U.S. persons
“Selling Shareholders”	LHTH Tech, LYZ Tech and Knowledge ZH, our existing Shareholders who are expected to offer to sell the Sale Shares under the Global Offering, particulars of which are set forth in “Statutory and general information — Other information — 26. Particulars of the Selling Shareholders” in Appendix IV to this prospectus
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Share(s)”	ordinary share(s) with a nominal value of US\$0.0001 each in the share capital of our Company, which are to be traded in Hong Kong dollars and listed on the Main Board
“Share Option Scheme”	the share option scheme conditionally adopted by our Company on 19 June 2020, the principal terms of which are summarised in “Statutory and general information — Other information — 15. Share Option Scheme” in Appendix IV to this prospectus
“Shareholder(s)”	holder(s) of the Share(s)
“Sino-Entertainment (HK)”	Sino-Entertainment (HK) International Holdings Limited, a company incorporated under the laws of Hong Kong with limited liability on 30 April 2018 and wholly-owned by our Company
“Sole Sponsor”	WAG Worldsec Corporate Finance Limited, a corporation licensed to carry on Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
“sq. m.”	square metre(s)
“Stabilising Manager”	Huajin Securities (International) Limited
“Stock Borrowing Agreement”	the stock borrowing agreement expected to be entered into between Sun JH and the Stabilising Manager on or about the same date as the International Underwriting Agreement

## DEFINITIONS

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it under Listing Rules
“substantial shareholder(s)”	has the meaning ascribed to it under the Listing Rules and details of our substantial shareholders are set out in the section “Substantial Shareholders”
“Sun JH”	Sun JH Holding Ltd., a company incorporated under the laws of the BVI with limited liability on 11 April 2018 and wholly-owned by Mr. Sui, one of our Controlling Shareholders
“Super SY”	Super SY Holding Ltd., a company incorporated under the laws of the BVI with limited liability on 11 April 2018 and wholly-owned by Ms. Shen Shiyin
“Takeovers Code”	the Codes on Takeovers and Mergers and Share Buy-backs, as amended, modified and supplemented from time to time
“Together Win”	Together Win Capital (Holdings) Co., Ltd., a company incorporated under the laws of the BVI with limited liability on 22 May 2018 and wholly owned by Mr. Huang Zhigang, our non-executive Director, one of our Pre-IPO Investors and a connected person of our Company
“Together Win Pre-IPO Investment Agreement”	the equity transfer agreement dated 16 January 2019, as amended by the supplemental agreement dated 7 March 2019, both entered into by Mr. Huang Xin, Mr. Liang Yuezhong and Together Win, on terms as more particularly set out in “History, Reorganisation and corporate structure — Pre-IPO Investments” in this prospectus
“Track Record Period”	comprises FY2017, FY2018 and FY2019
“Underwriters”	the Hong Kong Underwriter(s) and the International Underwriter(s), details of which are set out in the section “Underwriting”
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“U.S. Securities Act”	the United States Securities Act of 1993 (as amended from time to time)
“United States” or “U.S.”	United States of America
“US\$”	United States dollars, the lawful currency of the United States
“VIE” or “VIEs”	variable interest entity or variable interest entities



## DEFINITIONS

“WFOE”	wholly foreign-owned enterprise, a special form of company in the PRC
“WHITE Application Form(s)”	the application form(s) for the Hong Kong Offer Shares for use by the public who require such Hong Kong Offer Shares to be issued in the applicant’s own name
“Wonder H”	Wonder H Holding Ltd., a company incorporated under the laws of the BVI with limited liability on 11 April 2018 and wholly-owned by Mr. Wu Lihui
“YELLOW Application Form(s)”	the application form(s) for the Hong Kong Offer Shares for use by the public who require such Hong Kong Offer Shares to be deposited directly into CCASS
“%”	per cent.

*In this prospectus, if there is any inconsistency between the Chinese names of the entities, authorities, organisations, institutions or enterprises established in the PRC or awards and certificates given in the PRC and their English translations, the Chinese language version shall prevail. The English translation of company names and game titles in Chinese which are marked with “\*” is for identification purposes only.*

*Unless otherwise specified, all references to any shareholding in our Company in this prospectus assumes no allotment or issue of any Shares upon the exercise of any options which may be granted under the Share Option Scheme.*

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

## GLOSSARY OF TECHNICAL TERMS

*This glossary of technical terms contains explanations of certain terms used in this prospectus as they relate to our Company and as they are used in this prospectus in connection with our business or us. These terms and their given meanings may not correspond to standard industry definitions or usage of those terms.*

“ACT”	action games, which refer to games that emphasise physical challenges, where the player typically controls a character often in the form of a protagonist or avatar
“active users”	in any given period, (1) active users of a particular game refers to all registered users of such game that have entered the game at least once in such period; and (2) active users of a particular type or all of our games refers to the simple sum of the active users of each game of such type or all of our games, as applicable, in such period and a registered user that entered two or more games in such period is counted as two or more active users in such period
“Android”	an operating system developed and maintained by Google Inc. used in touchscreen technology including smartphones and tablets
“ARPPU”	average revenue per monthly paying user, calculated by dividing total revenue during a certain period by the number of average MPUs during the same period; average MPUs is the average of the aggregate number of paying users for our games in each month during a certain period
“casual game(s)”	games which are easy to learn and typically have a simple storyline with challenges for users to overcome in order to progress
“CCG”	card collection games, which refer to games that offer a wide variety of cards and players collect and use these cards to compete with other players or accomplish game tasks
“conversion rate”	the percentage of active users that become paying users
“CPA”	cost per action, an online advertising pricing model where the advertising fee is determined based on the number of action, such as a sale, click, install or form submitted
“CPC”	cost per click, an online advertising pricing model where the advertising fee is determined based on the number of times the advertisement is clicked
“CPM”	cost per mille, an online advertising pricing model where the advertising fee is determined based on the number of impressions achieved by the advertisement

## GLOSSARY OF TECHNICAL TERMS

“CPS”	cost per sale, a performance-based pricing model where advertising is paid on the basis of increased sale amount as a result of the advertising
“download”	to transfer (data or programs) from a server or host computer to one’s own computer or device
“FPS”	first person shooting games, game genre centered around other weapon based combat in a first person perspective
“free-to-play”	a business model used in the online game industry, under which users can play games for free, but may need to pay for virtual items sold in games to enhance their gameplay experience
“gross billings”	monetary value of all virtual currency and virtual items and premium features sold to paying users during a certain period
“hardcore games”	games which involve complex controls and typically with sophisticated storylines or themes
“iOS”	a mobile operating system developed and maintained by Apple Inc. used exclusively in Apple touchscreen technology including iPhones, iPods and iPads
“IP(s)”	intellectual property(ies)
“IP address”	internet protocol address, an identifier assigned to each computer and other device to a network that is used to locate and identify the node in communications with other nodes on the network
“IP game(s)”	intellectual property game(s)
“MAU”	monthly active users, which refers to the number of individuals who login to a particular game in the relevant calendar month; average MAUs for a particular period is the average of the MAUs in each month during that period
“MOBA”	multiplayer online battle arena, a subgenre of the real-time strategy genre of games, in which a player controls a single character in one of two teams in a battle
“mobile game(s)”	games that can be played on mobile devices
“MPU”	monthly paying users, which refers to the number of paying users in the relevant calendar month; average MPUs for a particular period is the average of the aggregate number of paying users for our games in each month during that period

## GLOSSARY OF TECHNICAL TERMS

“online game(s)”	video games that are played over some form of computer or mobile network, including primarily client games, web games and mobile games
“paying users”	in any given period, (1) paying users of a particular game refers to all registered users who charged their accounts for the game with virtual items purchased from us at least once in such period regardless of whether such virtual items were consumed by the registered users in such period; and (2) paying users of a particular type or all of our game refers to the simple sum of the paying users of each game of such type or all of our games, as applicable, in such period and a paying users that purchased virtual items for two or more games in such period is counted as two or more paying users in such period
“PC(s)”	personal computer(s)
“registered user(s)”	as of any period of time, registered user of a particular game refers to the user account that had at least one entry into such game prior to such time; registered users of certain type or all of our games refers to the simple sum of the registered users of each game of such type or all of our games, as applicable, as of such time and a user account that has been used to enter two or more games is counted as two or more registered users
“RPG”	role-playing games, which refer to games that involve a large number of users who interact with each other in an evolving fictional world; each user adopts skill sets (such as melee combat or casting magic spells) and controls the avatars’ actions; there are unlimited possible game scenarios where the evolution of the game world is determined by the actions of the users, and the storyline continuously evolves even while the users are offline and away from the games
“SDK”	software development kit, a set of software development tools that allows the creation of applications for a certain software package
“server(s)”	a computer system that provides services to other computing systems over a computer network
“SLG”	simulation games, which refer to games that simulate real world activities involving strategy, planning, decision making, analysis and prediction
“virtual item(s)”	items, avatars, skills, privileges or other in-game consumables, features or functionalities we offer to users to help them extend their play, enhance or personalise their game environments and accelerate their progress in our games

## FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. In some cases the words such as “aim”, “anticipate”, “believe”, “estimate”, “expect”, “going forward”, “intend”, “may”, “plan”, “potential”, “predict”, “propose”, “seek”, “should”, “will”, “would” and other similar expressions, and the negative of these words, are used to identify forward-looking statements. These forward-looking statements include, without limitation, statements relating to:

- our Group’s business and operating strategies and plans of operation;
- our capital expenditure plans;
- the amount and nature of, and potential for, future development of our Group’s business;
- our Company’s dividend distribution plans;
- our financial conditions;
- availability of bank loans and other forms of financing;
- the regulatory environment as well as the general industry outlook for the industry in which our Group operate;
- estimates of capacities and operating costs;
- future developments in the industry in which our Group operates; and
- the trend of the economy of Hong Kong, the PRC and the world in general.

These statements reflect the current views of our Directors with respect to future events, operations, liquidity and capital resources, and are based on several assumptions, including those regarding our Group’s present and future business strategies and the environment in which our Group will operate in the future.

Our Group’s future results could differ materially from those expressed or implied by such forward-looking statements. In addition, our Group’s future performance may be affected by various factors including, without limitation, those discussed in “Risk factors” and “Financial information” in this prospectus, many of which are not within our Company’s control.

Should one or more risks or uncertainties stated in the aforesaid sections materialise, or should any underlying assumptions prove to be incorrect, actual outcomes may vary materially from those indicated. Prospective investors should therefore not place undue reliance on any of the forward-looking statements. All forward-looking statements contained in this prospectus are qualified by reference to the cautionary statements as set out in this section.

In this prospectus, statements of, or references to, our Group’s intentions or those of any of our Directors are made as at the date of this prospectus. Any such intentions may change in light of future developments.

## RISK FACTORS

*Prospective investor should consider carefully all the information set forth in this prospectus and, in particular, should consider the following risks and special considerations in connection with an investment in our Company before making any investment decision in relation to the Global Offering. The occurrence of any of the following risks may have a material adverse effect on the business, results of operations, financial conditions and future prospectus of our Group. Additional risks not currently known to us or that we now deem immaterial may also harm us and affect your investment.*

*This prospectus contains certain forward-looking statements regarding our plans, objectives, expectations and intentions which involve risks and uncertainties. Our Group's actual results could differ materially from those discussed in this prospectus. Factors that could cause or contribute to such differences include those discussed below as well as those discussed elsewhere in this prospectus. The trading price of the Offer Shares could decline due to any of these risks, and you may lose all or part of your investment.*

Our business and operations involve certain risks and uncertainties, many of which are beyond our control. These risks can be broadly categorised as (i) risks relating to our business and industry; (ii) risks relating to conducting business in China; (iii) risks relating to our corporate structure; and (iv) risks relating to the Global Offering.

### **RISKS RELATING TO OUR BUSINESS AND INDUSTRY**

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

Our Group first commenced its business in 2014 engaging in the sales of computers, computer accessories and electronic products, as well as the development of software and websites in China. In 2015, we expanded our development business and started to develop mobile games and further tap into mobile games publishing business in 2016, where third party publishers engage us as co-publisher to provide publishing services including marketing, promotional, distribution and coordination services of mobile games developed by third party game developers. In 2018, we also began to publish our self-developed games. Although we experienced steady growth in our business and our revenue during the Track Record Period, we have a limited history upon which to evaluate our business, financial performance and prospects. We may not be able to achieve similar results or growth in future periods. Accordingly, you should not rely on our results of operations for any prior periods as an indication of our future performance. Instead, you should consider our future prospects in light of the risks and uncertainties regarding our ability to:

- manage our expanding business, including attracting and retaining talents;
- continue to improve our publishing strategies to attract and retain third party publishers and developers;
- successfully partner with well-known publishers with extensive portfolio of games;
- develop and publish our self-developed games;
- continue to expand, train, manage and motivate our talents;

## RISK FACTORS

- maintain and expand our collaboration with game developers, game publishers, marketing channels as well as game distribution platforms to deepen our penetration in China's mobile game market; and
- anticipate and adapt to evolving user interests and preferences, industry trends, market conditions and competition.

Addressing the foregoing risks and uncertainties will require significant capital expenditure and allocation of valuable management and employee resources. If we fail to successfully address any of these risks and uncertainties, our business, financial condition and results of operations may be materially and adversely affected.

**If we fail to maintain our relationships with our publishing partners for publishing and promoting our games, our business, financial condition, and results of operations may be materially and adversely affected.**

As at the Latest Practicable Date, we collaborated with a number of third party game publishers in China to co-publish their mobile games across the Chinese market. Our revenue derived from co-publishing third party games contributed 92.1%, 70.9% and 75.7% of our total revenue in FY2017, FY2018 and FY2019, respectively. In the course of co-publishing third party games, we may also subcontract some of our publishing responsibilities to other third party publishing service providers such as other third party co-publishers, advertising agents, payment channels and distribution channels and engage them to co-publish such third party games with us. Leveraging their user traffic and publishing experience, cooperating with third party publishing services providers enabled us to benefit from their large user base and traffic and brand image among mobile phone users in China.

According to the CIC Report, the competition of mobile game publishing market is intense and is dominated by the top 15 publishing companies which assumed a commanding market share of 86.7% in China in terms of gross billing in FY2019. In the coming years, we expect to continuously rely on reputable third party publishers to co-publish their mobile games in China. Some of the game publishers have strong bargaining power in dealing with mobile integrated game companies like us and we may be subject to their standard service terms and conditions with regard to the promotion, distribution, operation and payment methods for our games. Moreover, as there are relatively low entry barriers to publish mobile games, we expect new competitors to enter the market and existing competitors to allocate more resources to develop and market competing games. It may be more difficult for us to maintain and expand user base in light of the increased competition in the mobile game industry. We may have to offer more incentives to our publishing partners, such as the third party publishers which engage us for co-publishing their games or the third party publishing service providers which we engage to co-publish games with us, and could adversely affect our profitability. Our business could be materially and adversely affected if we fail to compete cost-efficiency or if these third party publishing partners cease to cooperate with us, or fail to effectively promote our games or otherwise fulfill their contractual obligations. Also, if they establish more favorable relationships with one or more of our competitors, or do not obtain or maintain relevant government licences to distribute our games, our business will be harmed.

**If we fail to continue to successfully market and distribute third party games, our business and revenue growth may not be sustainable.**

For our co-publishing of third party games, we provide marketing, promotional distribution, coordination and other user related services to third party publishers and assist them to publish their games on various distribution channels. In co-publishing games, we will market and distribute our

## RISK FACTORS

extensive game portfolio of mobile games with wide coverage of game genres with our large number of publishing partners, to enjoy the flexibility to select and focus on co-publishing third party games with higher profitability and ceases to publish games which do not meet our expected market reception. The success of co-publishing third party games largely depends on our analysis and marketing strategies. We cannot guarantee, however, that the games we co-publish will be well received. We also cannot guarantee that users will not lose interest in our marketing strategies and techniques. Users might lose interest in us because of unexpected developments in marketing trends. As a result, we may not be able to successfully market the co-published third party games.

**New published games may attract users away from existing published games, which may have a material adverse effect on our business, financial condition and results of operations.**

New published games may attract users away from existing published games and shrink the user base of the existing published games, which could in turn make those existing published games less attractive to other users, resulting in decline in revenue from the existing games. Users of the existing published games may also spend less purchasing virtual items in the new published games than they would have spent if they had continued playing the existing published games. Our business, financial condition and results of operations may be harmed if any of the foregoing occurs.

**If we fail to continue to release successful new self-developed games that attract and retain a larger user base, our business and revenue growth potential may be affected.**

To further grow our business, we must continuously make strong efforts to launch new self-developed games and implement different strategies to broaden our user base. In launching new self-developed games, we must predict and accommodate changes in user interests and preferences, and the evolving competitive landscape of the mobile game industry. We must also seek to effectively market new games and game upgrades to strengthen market penetration. Lastly, we must continue to upgrade our technology and infrastructure to minimise downtime and maintain our system stability of our games.

Releasing new self-developed games will help retain and expand our user base. The success of user monetisation largely depends on our ability to continue to attract and retain user base and convert more registered users into paying users.

We cannot guarantee, however, that the new self-developed games we launch will gain popularity. In addition, as developing new games may go through excessive modification or setbacks and publishing mobile games is subject to pre-approval by the NPPA, users might lose interest in us because of unexpected delays in releasing new self-developed games.

**Our future plans for an acquisition of a game development company to further build onto our development expertise may subject us to further risk exposures in the game development business.**

To further build onto our development expertise in order to facilitate the growth of our game development business, we plan to devote part of the proceeds from the Global Offering to the acquisition of a game development company. See “Future plans and use of proceeds — Use of proceeds” for details. However, as we invest more into game development we are subject to further risk exposures from our game development business. The uncertainties we face include:

- Given the fast pace with which mobile game technologies have been and will continue to be developed, we may not be able to continuously identify, develop, operate and upgrade games that are suitable for rapidly evolving mobile devices and platforms in a timely and cost-effectively manner, or at all;



## RISK FACTORS

- We may not be able to anticipate and effectively respond to the interests of players on mobile devices and platforms, or effectively market our mobile games to our existing players and attract new mobile game players;
- Each mobile device manufacturer or mobile platform provider may establish unique technological requirements or restrictive terms and conditions for game developers on their devices or platforms, and our games may not be compatible or functional on these devices and platforms, especially immediately after such devices and platforms are upgraded;
- As new mobile devices or new platforms are continuously launched or updated, we may encounter various technological difficulties in providing new versions of our games that function as intended on new mobile devices or platforms, and we may need to devote significant resources for the creation, support and maintenance of our games to keep pace with the evolving mobile devices and platforms.

These and other uncertainties make it difficult to assess whether we will succeed in implementing our game development strategies to continually develop commercially viable games. Any failure to continue to implement our game development strategy will materially and adversely affect our business and growth prospects as a whole. In addition, if the costs associated with developing our mobile game business exceed the revenue generated therefrom, our overall profitability will be negatively impacted.

**Our data analytics may be inaccurate which would materially and adversely affect our ability to adopt appropriate business strategies.**

For publishing of our self-developed games, we have the ability to continuously collect and analyse a wide array of game data including user registration, user activity, gameplay time and habits, topping-up and purchasing behaviours and progress of skill levels. Such data are collected from client-end with data collection SDK and server-end with collectors dedicated to receiving user data. Moreover, we may also receive user data from our third party publishing service providers such as the distribution channels and payment channels pursuant to the agreements between us. However, it is possible that our data may be inaccurate due to technical errors, security breaches, hacking incidents, or refusal by the third party publishing service providers to share any such data with us. Therefore, we might fail to gather or retain data timely, or ensure the quality of data, which would yield inaccurate or misleading analytical results. Furthermore, statistical inferences work on the faulty premises that past behavior predicts that in the future, which have inherent limitations.

We assess our business performance of our self-developed games utilising a set of key performance indicators, such as MAU, MPU and ARPPU. While data analytics has proven beneficial to businesses, we might make poor operational and strategic decisions, even with high-quality data and superb data analytics methodology. If any of the foregoing occurs, our business, financial condition and results of operation may be materially and adversely affected.

**Laws and regulations governing the internet industry and related businesses in China, including the mobile gaming business, are continually evolving and may be amended or replaced by newly adopted laws and regulations from time to time, which may expose our business operations to significant uncertainties.**

The PRC government extensively regulates the internet industry, including the foreign ownership of, and the licensing and permit requirements pertaining to, companies in the internet industry. These internet-related laws and regulations are relatively new and evolving, and their interpretation and enforcement involve significant uncertainty. With regard to the mobile game industry in China, various

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regulatory authorities of the PRC central government, such as the State Council, the MIIT, the MOC and the Ministry of Public Security, were empowered to promulgate and implement regulations governing various aspects of the internet and the mobile game industries.

In China, commercial operators and publishers of online games are required to obtain necessary qualifications and the contents of online games are required to comply with certain laws and regulations, which are summarised as followings:

<b>Regulations</b>	<b>Main Contents</b>
<p>Telecommunication Regulation of the People’s Republic of China (中華人民共和國電信條例), <i>issued on 25 September 2000 and last amended on 6 February 2016</i></p>	<ul style="list-style-type: none"> <li>— categorises telecommunications services into basic telecommunications services and value-added telecommunications services; and</li> <li>— requires telecommunications services providers to obtain an operating licence prior to the commencement of their operations.</li> </ul>
<p>Administrative Measures for Internet Information Services (互聯網信息服務管理辦法), <i>issued on 25 September 2000 and amended on January 8, 2011</i></p>	<ul style="list-style-type: none"> <li>— requires commercial internet information services operators to obtain a value-added telecommunications services licence with the business scope of internet information service, namely ICP licence (增值電信業務經營許可證).</li> </ul>
<p>Administrative Provisions on Online Publishing Services (網絡出版服務管理規定), <i>issued on 4 February 2016</i></p>	<ul style="list-style-type: none"> <li>— any entity that is engaged in provision of digital works to the public through information network, including online game publications, must obtain an Online Publishing Service Licence (網絡出版服務許可證); and</li> <li>— online games must be approved by the State Administration of Press and Publication prior to internet publishing.</li> </ul>

There exist inconsistencies and ambiguities in the regulations promulgated by different government authorities. Our publishing partners are required to obtain applicable permits or approvals from different regulatory authorities in order to provide mobile game services. As a result, it may be difficult to determine what actions or omissions may be deemed to be in violation of applicable laws and regulations, and we must screen our publishing partners’ qualifications before entering into any publishing or co-publishing arrangements.

The risks and uncertainties relating to PRC regulation of internet businesses also include the adoption or promulgation of new laws, regulations or policies that regulate internet activities, including mobile game businesses. Since 2004, a number of new laws, regulations or policies have been promulgated or announced in relation to the internet gaming industry by relevant PRC government authorities, such as the Circular on the Administration over Mobile Game Publishing Services (《關於移動遊戲出版服務管理的通知》) issued by the SAPPRFT in May 2016, and the Network Security Law of the PRC (中華人民共和國網絡安全法) promulgated by the SCNPC in November 2016. For more details, see “Regulatory overview — Laws and regulations governing online games industry and business in China”. If these new laws, regulations or policies are promulgated, additional licences may be required for our operations. If our operations do not comply with these new regulations after they become

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effective, or if we fail to obtain any licences required under these new laws and regulations, we could be subject to penalties and our business operations could be disrupted.

There are uncertainties relating to the regulation of the internet industry in China, including evolving licensing requirements. This means that existing permits, licences or operations held by some of our companies may be challenged, or we may fail to obtain or renew permits or licences that applicable regulators may deem necessary for our operations. If we fail to maintain or obtain the required permits or licences, we may be subject to various penalties, including fines and discontinuation of, or restriction on, our operations. Any penalty may disrupt our business operations and may have a material adverse effect on our results of operations.

The interpretation and application of existing or future PRC laws, regulations and policies relating to the internet industry have created substantial uncertainties regarding the legality of existing and future foreign investments in, and the businesses and activities of, internet businesses in China, including our business. We cannot assure you that we will be able to maintain our existing licences or obtain any new licences required under any existing or new laws or regulations. There are also risks that we may be found to be in violation of existing or future laws and regulations given the uncertainty and complexity of China's regulation of internet businesses. If current or future laws, rules or regulations regarding internet-related activities are interpreted in such a way as to render our ownership structure and/or business operations illegal or non-compliant, our business could be severely impaired and we could be subject to severe penalties.

**If we fail to obtain pre-approval for publication of online games from NPPA before the launch of our games in a timely manner, we will not be able to launch new games as scheduled.**

Publishing and the launch of mobile games is subject to pre-approval by the NPPA. Therefore, online games operated by us shall undertake the pre-approval procedures with the NPPA.

Before publishing of our self-developed games, we would cooperate with our publishing partners to seek for approval to publish the game from the NPPA. If we fail to obtain pre-approvals from the NPPA for our games, none of them can be successfully launched in the PRC, and our Group may suffer certain adverse effect, including loss of revenue.

**Our business is subject to various laws, rules, policies and other obligations regarding data protection. If the PRC government or its counterparts in other jurisdictions prohibit the use of personal data for data analytics, our business could be materially and adversely affected.**

Our business requires us to use and store in-game user behavioral data and gameplay data to analyse and improve the performance of existing games and develop new games. We may be subject to domestic and international laws relating to the collection, use, retention, security and transfer of personal data. Several jurisdictions have passed laws in this area, and other jurisdictions are considering imposing additional restrictions. For example, Amendment (IX) to the Criminal Law of PRC (中華人民共和國刑法修正案(九)), effective in November 2015, has added the Crime of Infringing on Citizens' Personal Information to the Criminal Law of PRC (中華人民共和國刑法), which signifies the PRC governmental authorities' resolution to further protect personal information. These laws continue to develop and may vary from jurisdiction to jurisdiction. Complying with emerging and changing domestic and international legal requirements may cause us to incur substantial costs. In addition, if the PRC government or its counterparts in other jurisdictions pass laws in the future to prohibit the use of personal data for data analytics, they may impede our capabilities to analyse and optimise our games. If we or third parties we work with are unable to use personal data for data analytics, we may lose a significant part of data resources, which would lead to a diminishing value in our analytical results and could in turn have a material adverse effect on our business.

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**We face competition from a broader entertainment industry. Our existing and prospective users may be attracted to competing forms of entertainment such as television, movies and sports, social network services, as well as other recreational options on the internet.**

Beyond online games, our users face a wide array of recreational choices. Other forms of entertainment, such as television, movies, music, electronic books, sports, social network services, and other recreational options on the internet, all represent significantly larger and more well-established markets. They offer greater variety, affordability, interactivity and enjoyment. These other forms of entertainment compete for the discretionary time and income from our users.

We cannot assure you that our future games will be compatible with our current game offerings, fit into our business models, or gain popularity among our users. If we are unable to sustain sufficient entertainment value in our games in comparison to other forms of entertainment, our business model may no longer be viable.

**We are challenged with risks and uncertainties, as we expand to new geographical markets. If we fail to manage our international expansion effectively, our growth prospects could be adversely affected.**

One of our key business strategies is to continue expanding our business to attract users outside China. In 2017, we commenced to provide publishing services as co-publisher to certain games distributed through the iOS App Store in Hong Kong. As part of our strategy to expand our business operations and diversify our market risk, we will further explore business opportunities in markets outside China and our initial expansion would focus on other Asian markets. For this purpose, we plan to hire additional staff responsible for the marketing, technical support, business operations and commerce in these areas.

In order to promote our brand and our integrated game distribution platform overseas, we will tailor our online and offline marketing strategy according to the characteristics of the local markets. For example, we will publish our promotional materials on popular local social media. We will also enhance our cultural awareness in each of the locales, including their language, religion, usage of mobile devices, payment behaviour, so that culturally appropriate contents can be created when we provide marketing and promotional services outside China. Our global strategy may subject us to risks that we have not faced before or increase risks that we currently face, including risks associated with:

- identifying appropriate overseas markets;
- challenges caused by distance, language and cultural differences;
- customising games and other offerings that appeal to the tastes and preferences of users in overseas markets;
- competition from local game developers with significant market share in those markets and with a better understanding of user preferences;
- the inability to extend proprietary rights in our brand, content or technology into new jurisdictions;
- implementing alternative payment methods for virtual items in a manner that complies with local laws and practices and protects us from fraud;
- credit risk and higher levels of payment fraud;

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- currency exchange rate fluctuations;
- adapting to local business practices;
- protectionist laws and business practices that favor local businesses in some countries;
- political, economic and social instability; and
- higher costs associated with doing business internationally.

We may have difficulty adequately responding to the complicated challenges and uncertainties we face. If we are unable to manage the risks and costs of our international expansion effectively, our growth rate and prospect may be materially and adversely affected.

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

The reputation of our brand is growing among our publishing partners and users as a game developer and publisher that consistently releases mobile games, especially in the RPG and casual games genres. Promoting the brand and enhancing its recognition is an integral part of our growth strategies. However, we may not be able to effectively promote or develop our brand and, if we fail to do so, our growth may be adversely affected.

In addition, negative publicity or disputes regarding our brand, games and services, company or management could materially and adversely affect public perception of our brand and other products and services we offer, which may in turn decrease the number of our users.

**Technology infrastructure, including servers and network, used by us or our publishing partners may experience unexpected system failure, significant interruptions or security breaches, which could adversely impact our operations and harm our business.**

Technology infrastructure may in the future encounter disruptions or other outages caused by a variety of factors, including infrastructure changes, human errors or malfunction in software, and capacity constraints. Our growing operations will place increasing pressure on the servers and network capacity of us or our publishing partners as we launch more games and further expand our user base. Furthermore, some of such infrastructure is also vulnerable to damages from fires, floods, earthquakes, power loss and telecommunication failures. Any network interruption or inadequacy that causes interruptions to our games or failure of us or our publishing partners to maintain the network and server or solve such problems in a timely manner, could reduce our users' satisfaction, which in turn will adversely affect our reputation, user base and future growth.

Furthermore, as we plan to publish games in more markets outside China, we will highly depend on the performance and reliability of the internet infrastructure in each market, which is maintained by telecommunications carriers owned by either the state or private parties with various levels of technology. Any disruptions or other problems with these services are out of our control and may be difficult for us to rectify. In addition, we do not maintain insurance policies covering losses relating to our systems and we do not have business interruption insurance.

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In addition, our business will be materially and adversely affected by any potential security breach caused by hackings, which involve efforts to gain unauthorised access to our or our publishing partners' information or systems, or to cause intentional malfunctions, loss or corruption of data, software, hardware or other computer equipment, the intentional or inadvertent transmission of computer viruses and similar events. It may be difficult for us or our publishing partners, to respond to security breaches in a timely manner or at all. If an actual or perceived breach of our or our publishing partners' security occurs, users' confidence in the effectiveness of our security measures could be harmed. We could also be exposed to litigation and possible liability if we fail to safeguard users' confidential information, which could harm our reputation and our ability to attract or retain users and may have a material adverse effect on our business. Therefore we could lose users and suffer financial losses because of such events, or in connection with the remediation efforts, investigation costs and system protection measures.

**Our users may violate our game policies which may harm users' gameplay experience and our revenue growth.**

For our self-developed games or games that we distributed on our self-operated platform, we have established game policies against unauthorised and inappropriate user behaviors and we have game policies in place which reserve our right to suspend, terminate or cancel a user account if we find abnormal activities in the account.

Nonetheless, unrelated third parties may develop cheating practices that enable users to exploit vulnerabilities in our games or obtain unfair advantages over other users who play fairly. These practices harm the experience of users who play fairly and may disrupt the virtual economies of our games. In addition, unrelated third parties may attempt to scam our users with fake offers for virtual items or other in-game benefits. We have employed measures to discover and disable these practices and activities, but if we fail to do so effectively or quickly, our operations may be disrupted, our reputation may be damaged and users may quit our games, which in turn may cause losses of revenue from paying users, increased cost of developing technological measures to combat these practices and activities, legal claims relating to the decrease in value of our virtual items, and increase customer service costs to respond to dissatisfied users.

**Undetected programming errors or game defects in our games could harm our reputation and materially and adversely affect our results of operations.**

Our self-developed games are subject to timely improvement and updates, and may contain errors, bugs, flaws or corrupted data that reveal only after the updated applications are accessed by users, particularly as we launch new self-developed games and rapidly release new features to existing games under tight time constraints. From time to time, our users have informed us of programming bugs affecting their experience, and we generally resolved those flaws promptly. However, if, for any reason, programming bugs or flaws are not resolved in a timely fashion or undetected programming errors, game defects and data corruption repeatedly occur, it could disrupt our operations, adversely affect the gameplay experience of our users, harm our reputation, cause our users to stop playing our games, divert our resources and delay market acceptance of our games, the occurrence of any of which could result in legal liability to us or harm our operating results.

**We cannot be certain that our business operations do not or will not infringe on any patents, valid copyrights or other rights held by third parties. We may incur significant legal expenses in case of third parties' claims.**

We may be subject to legal proceedings and claims from time to time relating to the IP rights of third parties in the ordinary course of our business. If we fail to successfully defend against such claim or

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do not prevail in such litigation, we may be prohibited from using such IP rights, subject to fines and penalties, and may incur licensing fees or be forced to develop alternatives. Any royalty or licensing arrangements that we may 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. Also, if we acquire technology to include in our products from third parties, our exposure to infringement actions may increase because we must rely upon these third parties to verify the origin and ownership of such technology. This exposure to liability could result in disruptions in our business that could materially and adversely affect our results of operations.

### **Our business and reputation may be adversely affected by unauthorised use of our IP rights.**

We regard our proprietary domain names, copyrights, trademarks, trade secrets and other IP rights critical to our business operations. We have historically relied on trademark and copyright laws, trade secret protection, restrictions on disclosure, and other agreements that restrict the use of and protect our IP rights. For our proprietary games, we register software in China for copyright protection and take various measures to protect our source codes, including confidentiality agreements. However, we may fail to protect the IP rights related to our games. Any failure to register our trademarks in any country or region may limit our ability to protect our rights under relevant trademark laws, and we may even need to change the name or the relevant trademark in certain cases, which may adversely affect our branding and marketing efforts.

In order to protect our technology and know-how, we rely on confidentiality provisions in relevant agreements with our employees, independent contractors and other advisers. These agreements may not effectively prevent disclosure of confidential information and may not provide an adequate remedy in the event of unauthorised disclosure of confidential information. In addition, others may independently discover trade secrets and proprietary information, limiting our ability to assert any trade secret rights against such parties. The validity, enforceability and scope of protection of intellectual property in internet-related industries are uncertain and still evolving. In particular, the laws and enforcement procedures in China do not protect IP rights to the same extent as do the laws and enforcement procedures of other countries. Policing unauthorised use of proprietary technology is difficult and expensive. Any steps we have taken to prevent the misappropriation of our proprietary technology may be inadequate. Despite our efforts to protect our IP rights, other game developers may copy our ideas and designs, and other third parties may infringe on our IP rights. Moreover, litigation may be necessary in the future to enforce our intellectual property rights. Future litigation could result in substantial costs and diversion of our resources, and could disrupt our business, as well as have a material adverse effect on our financial condition and results of operations.

### **Regulation and censorship of information disseminated over the internet in China may adversely affect our business, and we may be liable for information displayed on, retrieved from or linked to our mobile games.**

China has enacted laws and regulations governing internet access and the distribution of news and other content, as well as products and services, through the internet. The PRC government prohibits information that it believes to be in violations of PRC laws from being distributed through the internet. The MIIT, MOC 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 the games we offer or publish were deemed to violate any such content restrictions, we would not be able to obtain the necessary government approval to continue such offerings and/or could be subject to penalties, including

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confiscation of income, fines, 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 users 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 may violate PRC laws, which may reduce our user base, the amount of time our games are played or the in-game purchases. It may be difficult to determine the type of content that may result in liability for us, and if we are found to be liable, we may be prevented from offering our online games or other related services in China.

### **We may be held liable for inappropriate online communications or content made by our users.**

Our users are able to engage in highly personalised conversations when they use our in-game chatting function in our self-developed games. We are not able to verify users' identities or the sources of any information or content made by our users in our games. Therefore, it is possible that certain users may engage in illegal, obscene or incendiary conversations that may result in a negative impact among other users. In serious cases, certain such information or content may be deemed unlawful under the laws and regulations in the locations where the games are played, and government authorities may require us to discontinue or restrict certain features or services that would have led, or may lead, to such events. We may incur significant costs in investigating and defending ourselves if we find ourselves subject to penalties or claims based on the nature or content of the information improperly displayed, which may materially and adversely affect our reputation, operations and business.

### **The PRC law regulating the playing time and the age of online game users may materially and adversely affect our business, results of operations and financial condition.**

In April 2007, several governmental authorities, including the SAPPRFT and the MOE, jointly issued the Circular on Application of the Online Game Addiction Prevention System for Protecting the Physical and Mental Health of the 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) (the “**Anti-addiction Notice**”), to which is annexed the Standards Regarding the Development of Anti-addiction System on Online Games (網絡遊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 (網絡遊戲防沉迷系統實名認證方案). According to the Anti-addiction Notice, an anti-fatigue system monitoring the playing time is required to be installed in all existing online games since 16 July 2007, as well as in all online games to be operated in China. All of our self-developed games offered in China are and will be embedded with the anti-fatigue system prior to their release. The Anti-addiction Notice is followed by the Notice Regarding Launching Anti-addiction Real Name Authentication on Online Games (關於啟動網絡遊戲防沉迷實名驗證工作的通知), issued by the GAPP, the MOE and other government authorities, became effective in October 2011 (the “**Launching Notice**”). According to the Launching Notice, all the companies that operate online games must institute anti-addiction real-name authentication, including identifying registration information of their users and timely reporting the identification information of the users pursuant to the proceeding prescribed by government regulations, and strictly inputting the users who are proved to provide false identification information into the anti-addiction system on online games. The Notice Regarding In-depth Development of Anti-addiction Real Names 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), issued by the SAPPRFT in July 2014, became effective in October 2014 (the “**Development Notice**”). According to the Development Notice, the application for publication of an online game will be rejected if the operation company of the online game fails to complete the procedure of anti-addiction real-name authentication. Additionally, the SAPPRFT issued the Circular on the Administration over Mobile Game Publishing Services (關於移動遊戲出版服務管理的通知) in May 2016, which became effective in July 2016 (the “**Mobile Game Notice**”). According to the Mobile Game Notice, mobile games are subject to the Launching Notice unless the mobile game to be published does not concern, among others, themes such as politics, military, nations and religions, belongs to the class of casual puzzle domestic mobile games without plots or with



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simple plots and is not authorised by overseas copyright owners. On 30 August 2018, the Ministry of Education and other seven departments jointly issued the Circular on the Issuance of the Implementation Plan for Comprehensive Prevention and Control of Myopia in Children and Adolescents (《教育部等八部門關於印發〈綜合防控兒童青少年近視實施方案〉的通知》), pursuant to which the National Press and Publication Administration will implement the regulation of the total amount of online games, control the number of new online games, explore the age-appropriate prompting system in line with the national conditions, and take measures to limit the time of minors to play online games. On 25 October 2019, the NPPA issued the Notice on Preventing Minors from Indulging in Online Games (《國家新聞出版署關於防止未成年人沉迷網絡遊戲的通知》) which became effective on 1 November 2019 and has imposed a number of restrictions on mobile games including the time and duration where minors can spend on mobile games as well as the purchase amount one can spend in these mobile games. For further details, see “Regulatory overview — Laws and regulations governing online games industry and business in China”. We cannot assure you that our anti-fatigue system, real name registration system and 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 without limitation suspension or restriction of our games to be operated by our publishers, rejection to or suspension of the application for approval or filing of our games in China.

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

Users from all over the world generally can access to our games due to the boundless nature of internet-based business, and we do not restrict access from any specific jurisdiction unless the local regulators so require. In general, we would require our publishing partners to comply with local laws when they enter into any local markets. For our games published with our self-operated platform, as required by relevant laws in China, we require prospective users to provide their contact, identification and payment information for registration of their account. Although we do not believe that the mere fact that our games are accessible in a particular jurisdiction necessarily follows that we conduct business in that jurisdiction and are subject to the local laws and regulations, we cannot assure you that the local regulators will not hold a contrary view. As a result, if the local regulators in any specific jurisdiction place access restrictions to our games, any unsanctioned use of our services from the local users may subject us to regulatory risk, including monetary penalty or injunctions, which may adversely affect our business operations.

### **Failure to obtain, renew, or retain requisite licences, permits or approvals or failure to comply with applicable laws and regulations by us or by our publishing partners may adversely affect our ability to conduct our business.**

The online game industry in China is highly regulated. We currently derive a significant portion of our revenue and cash flow from Dinglian Technology, one of our PRC Operating Entities, and its subsidiaries. Dinglian Technology and its subsidiaries are required to obtain and maintain applicable licences and approvals from different regulatory authorities in order to provide their current services. Under the current PRC regulatory scheme, a number of regulatory agencies, including but not limited to the NPPA, and the MIIT, jointly regulate major aspects of the internet industry, including the online game business. Game operators and publishers must obtain various government approvals and licences for web and mobile game businesses.

We have obtained the ICP Licences for provision of value-added telecommunications services and Online Culture Business Permit for the operation and publishing of online games, which are essential to our publishing business in China and are generally subject to regular government review or renewal unless otherwise specified in this prospectus. For details, see “Contractual Arrangement — PRC regulatory background”. We cannot assure you that we can successfully update or renew the licences required for our business in a timely manner or that these licences are sufficient to conduct all of our present or future business.

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The regulatory environment applicable to our business in China is complex, and considerable uncertainties exist regarding the interpretation and implementation of existing and future laws and regulations governing our business activities. We cannot assure you that we or our publishing partners will not be found in violation of any future laws and regulations or any of the laws and regulations currently in effect due to changes in the relevant authorities' interpretation of these laws and regulations. If we or our publishing partners fail to obtain, renew or maintain any of the required licences or approvals or make the necessary filings, we may be subject to various penalties, such as imposition of fines, discontinuation or restriction of our operations, and confiscation of the revenue illegally obtained.

**We depend heavily on our key personnel and our ability to attract and retain talented personnel. If we lose their services, our business may be seriously harmed.**

We have been, and will continue to be, heavily dependent on the continued efforts of our senior management team and other key employees for our success. In particular, we rely on the expertise and experience of Mr. Sui, the Chairman of our Board and our executive Director, who together with other members of our senior management team, has formulated our strategies and been instrumental to our achievements to date. 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 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 from other online game companies is intense. We may not be able to successfully attract, assimilate or retain the personnel that we may require. In addition, we may need to offer superior compensation and other benefits in order to attract and retain key personnel in the future, and we therefore cannot assure you that we will have the resources to fully achieve our staffing needs. In connection with any acquisition we may pursue in the future, our ability to retain the existing personnel we select will have a significant effect on our success in these expansion efforts. Our failure to attract and retain qualified personnel could have a negative impact on our ability to maintain our competitive position and to grow our business.

**We may be exposed to payment delays or defaults from our publishing partners or customers and credit risk arising from our operation which would adversely affect our cash flow or financial results.**

We receive sales proceeds collected from our users through third-party game publishers, third-party distribution platforms and payment channels, or from third party purchasers of our self-developed games and software. As at 31 December 2017, 2018 and 2019, our trade receivables amounted to RMB32.2 million, RMB56.6 million and RMB49.0 million, respectively. As at 31 December 2017, 2018 and 2019, our trade receivable aged more than six months amounted to RMB0.4 million, nil and nil, respectively, representing 1.3%, nil and nil of our trade receivables, respectively. We made provisions for impairment loss of RMB41,000, RMB88,000 and RMB161,000 as at 31 December 2017, 2018 and 2019. For more details, see “Financial information — Selected items of consolidated statements of financial position — Trade and other receivables” in this prospectus.

During the Track Record Period, we also paid down payments to our publishing partners mainly for securing the publishing rights of new games. As at 31 December 2017, 2018 and 2019, our down payments paid to game publishers amounted to RMB0.2 million, RMB14.0 million and RMB27.4

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million, respectively. For more details, see “Financial information — Selected items of consolidated statements of financial position — Trade and other receivables” in this prospectus.

As such, our business operations are subject to risk of payment deferral or default from our business partners as well as credit risk arising from the down payments paid to our game publishers. We cannot assure that we will be able to fully recover the outstanding amounts due from them, if at all, or that they will settle the amounts in a timely manner. If such settlements are not made in full or in a timely manner, our business, financial conditions and results of operations will be adversely affected.

### **Our lack of insurance could expose us to significant costs and business disruption.**

The insurance industry in China is still at an early stage of development. In particular, Chinese insurance companies offer limited business insurance products to online game companies. We do not have any business liability or disruption insurance to cover our operations in China, which is consistent with customary industry practice in China. We have determined that the costs of insuring for these risks and the difficulties associated with acquiring such insurance on commercially reasonable terms make it impractical for us to have such insurance. In addition, we do not maintain any insurance policies covering risks including loss and theft of and damages to our servers or other technology infrastructure. Any uninsured occurrence of business disruption, litigation or natural disaster, or significant damages to our uninsured equipment or technology infrastructure could result in substantial costs and diversion of resources for us and could adversely affect our financial conditions and results of operations.

### **We may be required to recognise impairment losses and increased amortisation costs on our intangible assets, which would materially and adversely affect our results of operations.**

Our intangible assets represented the loyalty fees we paid to the fiction copyright owners for the right to develop, publish and operate mobile games based on the fiction copyright. As at 31 December 2017, 2018 and 2019, the carrying value of intangible assets amounted to nil, RMB6.4 million and RMB13.8 million. Our Group reviews the carrying amounts of its intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, impairment loss may be recognised with reference to the estimation of the recoverable amount of the intangible assets, which in turn may have a material adverse impact on our results of operations.

As part of our strategy to further enhance our development business, we plan to devote part of the proceeds from the Global Offering to the acquisition of viable IPs from third parties. See “Future plans and use of proceeds — Use of proceeds” for details. The IPs will be regarded as intangible assets initially recorded at cost and amortised on a straight-line basis over the licence period. Our amortisation costs on intangible assets may increase resulting from the IPs to be acquired under our future plans.

In the event that we are unable to generate sufficient income from our IPs to cover our amortisation costs, our results of operations may be adversely affected. In circumstances that we are unable to materialise the benefits of such IPs, we may also have to recognise impairment loss and cast a material adverse impact on our results of operations.

### **Our Player Relationship Period on which our revenue recognition is based may change.**

Our revenue for publishing of self-developed games and co-publishing of third party games through our self operated platform is recognised ratably over the estimated player period of paying users (the “**Player Relationship Period**”), given there is an implicit obligation of our Group to maintain and allow access of the users of the games operated by us. We estimate the Player Relationship Period and

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re-assess such periods semi-annually. Accordingly, the Player Relationship Period may change in the future and our Company may take a longer period of time to fully recognise online game revenue from in-game payments we receive for virtual items.

**Our possible acquisition or strategic investment may not achieve the expected results and may present risks or uncertainties.**

We may selectively pursue acquisitions or strategic investments. There can be no assurance that we will be able to identify suitable targets for acquisitions or investments, or that we will be able to consummate any such transactions on terms and conditions acceptable to us, or that such transactions will be successful. Acquisitions may cause us to enter into business that we have not previously conducted and expose us to additional business risks that are different from those we have historically experienced. We may also encounter significant difficulties in identifying all risks relating to potential transactions during the due diligence process and successfully managing the growth we expect to experience from such acquisitions or investments. If our acquisition or investment is not successful, it may result in loss of all or part of our investment, and therefore our business, financial position, results of operations and prospects could be materially and adversely affected.

**We could be adversely affected as a result of any sales we make to certain countries that are, or become subject to, sanctions administered by the United States, the European Union, the United Nations, Australia and other relevant sanctions authorities.**

The United States and other jurisdictions or organisations, 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 such countries or against targeted industry sectors, groups of companies or persons, and/or organisations within such countries.

During the Track Record Period, we entered into two contracts with one customer in China for the provision of advertising services, whereby we provided assistance to this customer so that they could run certain advertisements connected to certain hyperlinks and photographs prepared by the customer, through a Chinese third party supplier's platform but which were designated for the Relevant Countries, and in particular, were designated for Iran. In providing these advertising services, our Group has generated the Renminbi equivalent (from time to time) of US\$75,831 of revenue over the Track Record Period (the "**Iranian Transactions**", and each an "**Iranian Transaction**"), relating to Iran. Our Group did not assist in the creation of the ad or ad campaign itself, but merely received a copy ready ad from the customer to run on the platform. This represents 0.11% of the total revenue generated by our Group during the Track Record Period. Iran is subject to comprehensive sanctions programmes administered by OFAC. As advised by our International Sanctions Legal Advisers, the Iranian Transactions are covered by the OFAC regulations exemption for the export and import of "information and informational materials", and as such, are not a potential violation of U.S. sanctions regulations that are applicable to transactions with Iran and further, our business activities with Iran and the other Relevant Countries do not appear to expose us to any sanctions penalties.

By the end of July 2018, all of our sales transactions relating to Iran had been completed. Further, we have no present intention to undertake any future business with or involving Iran, other comprehensively sanctioned countries, persons on the SDN List, or any other business that may expose us to sanctions risks. Furthermore, in our future dealing with customers in Countries subject to International Sanctions of any kind, we will implement internal control measures to minimise our risk exposure to international sanctions.

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We have undertaken to the Stock Exchange that we will not use the proceeds from the Global Offering, as well as any other funds raised through the Stock Exchange, to finance or facilitate, directly or indirectly, activities or business with, or for the benefit of, any Countries subject to International Sanctions or any other government, individual or entity sanctioned by the United States, the European Union, the United Nations or Australia, including, without limitation, any government, individual or entity that is the subject of any OFAC-administered sanctions. Further, we have undertaken not to use the proceeds from the Global Offering to pay any damages for terminating or transferring any contract that violates International Sanctions. In addition, we have undertaken not to enter into any future business that would cause us, the Stock Exchange, HKSCC, HKSCC Nominees or our Shareholders and investors to violate or become a target of sanctions laws by the U.S., the European Union, the United Nations or Australia. We will also disclose on the respective websites of the Stock Exchange and our Group if we believe that the transactions our Group entered into in Countries subject to International Sanctions or with Sanctioned Persons would expose our Group or our Shareholders and investors to risks of being sanctioned, and in our annual reports or interim reports our efforts on monitoring our business exposure to sanctions risk, the status of future business, if any, in Countries subject to International Sanctions and with Sanctioned Persons and our business intention relating to Countries subject to International Sanctions and with Sanctioned Persons. If we were in breach of such undertakings to the Stock Exchange, we would be subject to the risk of possible delisting of our Shares on the Stock Exchange.

While we have implemented internal control measures to minimise our risk exposure to International Sanctions, sanctions laws and regulations are constantly evolving, and new persons and entities are regularly added to the list of Sanctioned Persons. Further, new requirements or restrictions could come into effect which might increase the scrutiny on our business or result in one or more of our business activities being deemed to have violated sanctions. Our business and reputation could be adversely affected if the authorities of United States, the European Union, the United Nations, Australia or any other jurisdictions were to determine that any of our future activities constitutes a violation of the sanctions they impose or provides a basis for a sanctions designation of our Group. For details of our business operations in the Countries subject to International Sanctions and our undertakings to the Stock Exchange and its related group companies, see “Business — Business activities in Countries subject to International Sanctions” in this prospectus.

### **RISKS RELATING TO CONDUCTING BUSINESS IN CHINA**

#### **The economic, political and social conditions of China could affect our business, financial condition and results of operations.**

As part of our business strategy, we target China’s mobile game market by devoting a large amount of resources. Accordingly, our business, financial condition, results of operations and prospects are, to a significant degree, subject to the economic, political and social conditions in China. The Chinese economy differs from the economies in developed countries in many respects, including the degree of government involvement, control of capital investment, as well as the overall level of development. Although the PRC government has implemented measures since the late 1970s emphasising the utilisation of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of improved corporate governance in business enterprises, a substantial portion of productive assets in China is still owned by the PRC government. In addition, the PRC government continues to play a significant role in regulating industry development by imposing industrial policies. The PRC government also exercises significant control over China’s economic growth through the allocation of resources, controlling payment of foreign currency denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. We cannot predict future changes in China’s economic, political and social condition and the effect that new government policies will have on our business and future prospects. Any actions and policies adopted by

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the PRC government or any prolonged slowdown in China's economy, in particular the mobile applications industry, could have a negative impact on our business, operating results and financial condition in a number of ways. For example, our users may decrease spending on our game offerings, while we may have difficulty expanding our user base fast enough, or at all, to offset the impact of decreased spending by our existing users.

**We may be deemed to be a PRC tax resident under the EIT Law, and as a result, our global income could be subject to PRC withholding tax and enterprise income tax.**

We are a holding company incorporated under the laws of the Cayman Islands and indirectly hold interests in a Hong Kong-incorporated subsidiary, which in turn directly or indirectly hold interests in our PRC subsidiaries. Pursuant to the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法) (the "EIT Law"), effective in January 2008, as amended on 24 February 2017 and 29 December 2018, and its implementation rules, dividends payable by a foreign-invested enterprise to its foreign corporate investors who are not deemed a PRC-resident enterprise are subject to a 10.0% withholding tax, unless such foreign investor's jurisdiction of incorporation has a tax treaty with the PRC that provides for a different withholding tax arrangement. Under an arrangement between China and Hong Kong, effective in January 2007, such dividend withholding tax rate is reduced to 5.0% for dividends paid by a PRC company to a Hong Kong-resident enterprise if such Hong Kong entity is a "beneficial owner" and such entity directly owns at least 25.0% of the equity interest of the PRC company. The Announcement of the SAT on Issues concerning the "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), effective in April 2018, provides certain negative factors for a company to qualify as a beneficial owner under tax treaties, which include, among others, that the business activities engaged in by the company do not qualify as substantive business activities, for instances, the company engages in both non-substantive investment management activities and other business activities that are not significant enough. If the PRC tax authorities determine that our Hong Kong subsidiary does not qualify as a beneficial owner under the tax arrangement between China and Hong Kong, we may not be able to enjoy a preferential withholding tax rate of 5% and dividend payable by our PRC subsidiaries to our Hong Kong subsidiary will be subject to withholding tax at the rate of 10.0%.

The EIT Law and EIT implementation rules also provide that if an enterprise incorporated outside China has its "de facto management bodies" within China, such enterprise may be deemed a "PRC resident enterprise" for tax purposes and be subject to an enterprise income tax rate of 25.0% on its global incomes. "De facto management body" is defined as the body that has the significant and overall management and control over the business, personnel, accounts and properties of an enterprise. In April 2009, SAT promulgated a circular, known as Circular 82, and partially amended by Circular 9 promulgated in January 2014, to clarify the certain criteria for the determination of the "de facto management bodies" for foreign enterprises controlled by PRC enterprises or PRC enterprise groups. Under Circular 82, a foreign enterprise is considered a PRC resident enterprise if all of the following apply: (1) the senior management and core management departments in charge of daily operations are located mainly within China; (2) decisions relating to the enterprise's financial and human resource matters are made or subject to approval by organisations or personnel in China; (3) the enterprise's primary assets, accounting books and records, company seals, and board and shareholders' meeting minutes are located or maintained in China; and (4) 50.0% or more of voting board members or senior executives of the enterprise habitually reside in China. Further to Circular 82, the SAT issued a bulletin, known as Bulletin 45, effective in September 2011 and amended on 1 June 2015, 1 October 2016, and 15 June 2018 to provide more guidance on the implementation of Circular 82 and clarify the reporting and filing obligations of such "Chinese-controlled offshore incorporated resident enterprises." Bulletin 45 provides for, among other matters, procedures for the determination of resident status and administration of post-determination matters. Although Circular 82 and Bulletin 45 explicitly provide that the above standards apply to enterprises that are registered outside China and controlled by PRC enterprises or PRC enterprise groups, Circular 82 may reflect SAT's criteria for determining the tax residence of foreign enterprises in general.

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However, there have been no official implementation rules regarding the determination of the “de facto management bodies” for foreign enterprises not controlled by PRC enterprises (including companies like ourselves). Therefore, it remains unclear how the tax authorities will treat a case such as ours. However, if the PRC authorities were to subsequently determine, or any future regulation provides, that we should be treated as a PRC resident enterprise, we will be subject to the uniform 25.0% enterprise income tax on our global incomes. In addition, although the EIT Law provides that dividend payments between qualified PRC-resident enterprises are exempt from enterprise income tax, due to the relatively short history of the EIT Law, it remains unclear as to the detailed qualification requirements for this exemption and whether dividend payments by our PRC subsidiaries to us will meet such qualification requirements even if we are considered a PRC resident enterprise for tax purposes.

There remains significant uncertainty as to the interpretation and application of applicable PRC tax laws and rules by the PRC tax authorities, and the PRC tax laws, rules and regulations may also change. If there is any change to applicable tax laws and rules and interpretation or application with respect to such laws and rules, the value of your investment in our shares may be materially affected.

### **The financial performance of our Group during the Track Record Period will be affected by certain tax incentives.**

Under the EIT Law and Implementation Regulations of the EIT Law, the tax rate of the PRC subsidiaries is 25%. Pursuant to relevant regulations issued by the SAT, the Ministry of Finance, and/or other governmental authorities, certain subsidiaries of our Group including Dinglian Technology, Khorgos Dinglian and Beihai Dinglian are entitled to enjoyed the preferential tax treatments in the PRC during the Track Record Period. Effect of our tax exemption on concessionary rates amounted to RMB7.1 million, RMB6.6 million and RMB12.0 million, respectively, for FY2017, FY2018 and FY2019. According to a notice jointly promulgated by the SAT, the Ministry of Finance and the Ministry of Science and Technology in 2017 and other relevant laws and regulations, we also entitled to claim 175% (for FY2017, FY2018 and FY2019) of the research and development expenses incurred by us as tax deductible expenses when determining the assessable profits for that year (“**Super Deduction**”). Our Group has made its best estimate for the Super Deduction to be claimed for our Group’s entities in ascertaining their assessable profits for the Track Record Period. For FY2017, FY2018 and FY2019, such Super Deduction amounted to RMB0.8 million, RMB0.8 million and RMB2.0 million, respectively. Details of the preferential tax treatments, EIT exemption and Super Deduction are set out in Note 9 to the Accountants’ Report in Appendix I to this prospectus.

Preferential tax treatments, EIT exemption and Super Deduction granted to us by PRC governmental authorities are non-recurring, subject to review and may be adjusted or revoked at any time in the future. We cannot guarantee that our PRC subsidiaries will continue to enjoy current tax treatments in the future. We cannot assure you that the PRC tax authorities will not, in the future, change their position and discontinue any of our current tax treatments, potentially with retroactive effect. The discontinuation of any of our current tax treatments could materially increase our income tax expenses and our financial performance and financial conditions may be adversely affected.

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

During the course of playing mobile games, some virtual assets, such as special equipment, user experience upgrades and other features of our users’ game avatars, are acquired and accumulated. Such virtual assets can be important to users and have monetary value and in some cases are sold among users for actual money. In practice, virtual assets can be lost for various reasons, often through unauthorised use of the game account of one user by other users and occasionally through data loss caused by a delay

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of network service, a network crash or hacking activities. Currently, there is no PRC law or regulation specifically governing virtual asset property rights. As a result, there is uncertainty as to who is the legal owner of virtual assets, whether and how the ownership of virtual assets is protected by law, and whether a developer of mobile games such as us would have any liability to users or other interested parties (whether in contract, tort or otherwise) for the loss of virtual assets. In case of a loss of virtual assets, we may be sued by our users and held liable for damages, which may negatively affect our reputation and business, financial condition and results of operations. We have not been involved in any virtual assets related law suits. However, we cannot assure you that such law suits will not be brought against us in the future.

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

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

Our business in China are governed by PRC laws and regulations. The PRC legal system is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value.

Since the 1970s, the PRC government has promulgated a comprehensive system of laws and regulations governing economic matters in general, and forms of foreign investment (including wholly foreign-owned enterprises and joint ventures) in particular. These laws, regulations and legal requirements, including those governing PRC tax matters, are relatively new and amended frequently, and their interpretation and enforcement often raise uncertainties that could limit the reliability of the legal protections available to us. In addition, the PRC legal system is based in part on government policies and internal rules (some of which are not published on a timely basis or at all) that may have a retroactive effect. As a result, we may not be aware of our violations of these policies and rules until the violations have occurred. Furthermore, the PRC administrative and court authorities have significant discretions in interpreting and implementing or enforcing statutory rules and contractual terms, and it may be more difficult to predict the outcome of administrative and court proceedings and the level of legal protection we may enjoy in China versus other more developed legal systems. These uncertainties may affect our judgment on the relevance of legal requirements and our decisions on the measures and actions to be taken to fully comply therewith, and may affect our ability to enforce our contractual or tort rights. Such uncertainties may result in substantial operating expenses and costs, and any litigation in China may result in diversion of resources and management's attention, and therefore materially and adversely affect our business and results of operations. We cannot predict future developments in the PRC legal system. We may be required to procure additional permits, authorizations and approvals for our operations, which we may not be able to obtain. Our inability to obtain such permits or authorizations may materially and adversely affect our business, financial condition and results of operations.

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

As an offshore holding company, we may rely on dividends from our PRC subsidiaries for our cash requirements, dividends payments and other distributions to our Shareholders, and to service any debt that we may incur and pay our operating expenses. The payment of dividends by entities organised in China is subject to limitations. In particular, PRC regulations permit our subsidiaries to pay dividends



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only out of their accumulated profits, if any, as determined in accordance with Chinese accounting standards and regulations. In addition, our PRC subsidiaries are required each year to set aside at least 10.0% of its annual after-tax profits (as determined under PRC accounting standards) into its statutory reserve fund until the aggregate amount of that reserve reaches 50.0% of such entity's registered capital. These reserves are not distributable as cash dividends.

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

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

The value of RMB against the Hong Kong dollar, the U.S. dollar 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 the RMB and the Hong Kong dollar, the U.S. dollar or other currencies in the future. In addition, PBOC 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 Hong Kong dollars. As a result, any appreciation of the RMB against the Hong Kong dollar 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 costs. Furthermore, we are also currently required to obtain the SAFE's approval 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 China. We receive a majority of our net revenues 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 State Administration of Foreign Exchange, or 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 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 China to pay capital expenses such as the repayment of loans denominated in foreign currencies.

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In light of the flood of capital outflows of China 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 process are put in place by 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.

**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 report to and/or registration with relevant governmental authorities in China. According to the relevant PRC regulations on foreign-invested enterprises in China, capital contributions to our PRC subsidiaries are subject to the requirement of submitting the report of changes through the enterprise registration system, and registration with other governmental authorities in China. In addition, (i) any foreign loan procured by our PRC subsidiaries is required to be registered with SAFE, or its local branches, and (ii) each of our PRC subsidiaries may not procure loans which exceed the difference between its registered capital and its total investment amount as recorded in governmental authorities' information system or twice its net asset, as applicable. Any medium or long term loan to be provided by us to our PRC Operating Entities must be recorded and registered by NDRC and SAFE or its local branches. 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 the Global Offering and to capitalise our PRC operations may be negatively affected, which could adversely affect our liquidity and our ability to fund and expand our business.

On 30 March 2015, SAFE promulgated the Circular on Reforming the Management Approach Regarding the Foreign Exchange Capital Settlement of Foreign-Invested Enterprises, or SAFE Circular 19. SAFE Circular 19 took effect as at 1 June 2015. SAFE Circular 19 launched a nationwide reform of the administration of the settlement of the foreign exchange capitals of foreign-invested enterprises and allows foreign-invested enterprises to settle their foreign exchange capital at their discretion, but continues to prohibit foreign-invested enterprises from using the RMB fund converted from their foreign exchange capitals for expenditures beyond their business scopes. On June 9, 2016, the SAFE promulgated the Circular on Reforming and Standardizing the Administrative Provisions on Capital Account Foreign Exchange, or SAFE Circular 16. SAFE Circular 19 and SAFE Circular 16 continue to prohibit foreign-invested enterprises from, among other things, using RMB fund converted from its foreign exchange capitals for expenditure beyond its business scope, investment in securities and wealth management products (except for guaranteed bank products), providing loans to non-affiliated enterprises or constructing or purchasing real estate not for self-use. SAFE Circular 19 and SAFE Circular 16 may significantly limit our ability to transfer to and use in China the net proceeds from this offering, which may adversely affect our business, financial condition and results of operations.

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**Failure to comply with PRC regulations relating to the establishment of offshore special purpose companies by PRC residents may subject our PRC resident Shareholders to personal liability, may limit our ability to acquire PRC companies or to inject capital into our PRC subsidiaries, may limit the ability of our PRC subsidiaries to distribute profits to us or may otherwise materially and adversely affect us.**

Pursuant to the Circular on Relevant Issues concerning Foreign Exchange Administration of Overseas Investment and Financing and Return Investments 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) (the “**Circular 37**”), which was promulgated by SAFE, and became effective on 4 July 2014, (1) a PRC resident must register with the local SAFE branch before he or she contributes assets or equity interests in an overseas special purpose vehicle, or an Overseas SPV, that is directly established or indirectly controlled by the PRC resident for the purpose of conducting investment or financing; and (2) following the initial registration, the PRC resident is also required to register with the local SAFE branch for any major change, in respect of the Overseas SPV, including, among other things, a change in the Overseas SPV’s PRC resident shareholder, name of the Overseas SPV, term of operation, or any increase or reduction of the contributions by the PRC resident, share transfer or swap, and merger or division. Additionally, pursuant to the Circular of SAFE on 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) (the “**Circular 13**”), which was promulgated on 13 February 2015 and became effective on 1 June 2015, the aforesaid registration shall be directly reviewed and handled by qualified banks in accordance with the Circular 13, and SAFE and its branches shall perform indirect regulation over the foreign exchange registration via qualified banks.

As confirmed by our PRC Legal Advisers, each of our shareholders as a PRC resident has completed the initial foreign exchange registration in October 2018. As we have little control over either our present or prospective, direct or indirect Shareholders or the outcome of such registration procedures, we cannot assure you that these Shareholders who are PRC residents will amend or update their registration as required under Circular 37 and Circular 13 in a timely manner or at all. Failure of our present or future Shareholders who are PRC residents to comply with Circular 37 and Circular 13 could subject these Shareholders to fines or legal sanctions, restrict our overseas or cross-border investment activities, limit the ability of our PRC subsidiaries to make distributions or pay dividends or affect our ownership structure, which could adversely affect our business and prospects.

**We may be unable to complete a business combination transaction efficiently or on favorable terms due to complicated merger and acquisition regulations.**

On 8 August 2006, six PRC regulatory authorities, including MOFCOM, the State Assets Supervision and Administration Commission, SAT, SAIC, CSRC and SAFE, jointly issued 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) (the “**M&A Rules**”), which became effective on 8 September 2006 and was amended in June 2009, and partially altered by the Measures for the Reporting of Foreign Investment Information (《外商投資信息報告辦法》) which became effective on 1 January 2020. The M&A Rules, governing the approval process by which a PRC company may participate in an acquisition of assets or equity interests by foreign investors, requires the investors or the PRC company to make a series of applications to the government agencies, depending on the structure of the transaction. In some instances, the application process may require presentation of economic data concerning a transaction, including appraisals of the target business and evaluations of the acquirer, which are designed to allow the government to assess the transaction. Accordingly, due to the M&A Rules, our ability to engage in business combination transactions has become more complicated, time-consuming and expensive, and we may not be able to negotiate a transaction that is acceptable to our Shareholders or sufficiently protect their interests in a transaction.

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The M&A Rules allow PRC government agencies to assess the economic terms of a business combination transaction under certain circumstances. Parties to a business combination transaction may have to submit to MOFCOM and other relevant government agencies an evaluation report and the acquisition agreement, all of which form part of the application for approval, depending on the structure of the transaction. The M&A Rules also prohibit a transaction at an acquisition price obviously lower than the appraised value of the PRC business or assets and in certain transaction structures, require that consideration must be paid within defined periods, generally not in excess of a year. In addition, the M&A Rules also limits our ability to negotiate various terms of the acquisition, including aspects of the initial consideration, contingent consideration, holdback provisions, indemnification provisions and provisions relating to the assumption and allocation of assets and liabilities. Therefore, such regulation may impede our ability to negotiate and complete a business combination transaction on legal and/or financial terms that satisfy our investors and protect our Shareholders' economic interests.

### **We face uncertainties with respect to indirect transfers of equity interests in PRC resident enterprises by their non-PRC holding companies.**

SAT released a circular on 15 December 2009 that addresses the transfer of shares by nonresident companies, generally referred to as Circular 698. Circular 698, which became effective retroactively to 1 January 2008, may have a significant impact on many companies that use offshore holding companies to invest in China. Circular 698 has the effect of taxing foreign companies on gains derived from the indirect sale of a PRC company. Where a foreign investor indirectly transfers equity interests in a PRC resident enterprise by selling the shares in an offshore holding company, and the latter is located in a country or jurisdiction that has an effective tax rate less than 12.5% or does not tax foreign income of its residents, the foreign investor must report this indirect transfer to the tax authority in charge of that PRC resident enterprise. Using a “substance over form” principle, the PRC tax authority may disregard the existence of the overseas holding company if it lacks a reasonable commercial purpose and was established for the purpose of avoiding PRC tax. As a result, gains derived from such indirect transfer may be subject to PRC withholding tax at a rate of up to 10.0%.

SAT subsequently released public notices to clarify issues relating to Circular 698, including the Announcement on Several Issues concerning the Enterprise Income Tax on the Indirect Transfers of Properties by Non-resident Enterprises (關於非居民企業間接轉讓財產企業所得稅若干問題的公告) (the “**SAT Notice 7**”), which became effective on 3 February 2015. SAT Notice 7 replaced or supplemented certain previous rules under Circular 698. Under SAT Notice 7, if a non-resident enterprise transfers its shares in an overseas holding company, which directly or indirectly owns PRC taxable properties, including shares in a PRC company, via an arrangement without reasonable commercial purpose, such transfer shall be deemed as indirect transfer of the underlying PRC taxable properties. Accordingly, the transferee shall be deemed as a withholding agent with the obligation to withhold and remit the enterprise income tax to the competent PRC tax authorities. Factors that may be taken into consideration when determining whether there is a “reasonable commercial purpose” include, among other factors, the economic essence of the transferred shares, the economic essence of the assets held by the overseas holding company, the taxability of the transaction in offshore jurisdictions, and economic essence and duration of the offshore structure. SAT Notice 7 also sets out safe harbors for the “reasonable commercial purpose” test.

On 17 October 2017, SAT issued an Announcement of the State Administration of Taxation on Issues Relating to Withholding at Source of Income Tax of Non-resident Enterprises (關於非居民企業所得稅源泉扣繳有關問題的公告) (the “**SAT Notice 37**”) to totally repeal Circular 698 and the second paragraph of Section 8 of SAT Notice 7.

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There is little guidance and practical experience regarding the application of the related SAT notices. For example, while the term “indirectly transfer” is not defined, it is understood that the relevant PRC tax authorities have jurisdiction regarding requests for information over a wide range of foreign entities having no direct contact with China. Moreover, the relevant authority has not yet promulgated any formal provisions or formally declared or stated how to calculate the effective tax rates in foreign tax jurisdictions. As a result, due to our complex offshore restructuring, we may become at risk of being taxed under SAT Notice 7 and the related SAT notices and we may be required to expend valuable resources to comply with SAT Notice 7 and the related SAT notices or to establish that we should not be taxed under SAT Notice 7 and the related SAT notices, which could have a material adverse effect on our financial condition and results of operations.

In addition, since we may pursue acquisitions as one of our growth strategies, and may conduct acquisitions involving complex corporate structures, the PRC tax authorities may, at their discretion, adjust the capital gains or request that we submit additional documentation for their review in connection with any potential acquisitions, which may cause us to incur additional acquisition costs or delay our acquisition timetable.

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

After our Company becomes an overseas listed company upon the completion of the Global Offering, we, along with our Directors, executive officers and other employees who will be granted options, may be subject to the Notice on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plan of Overseas Publicly Listed Company (關於境內個人參與境外上市公司股權激勵計劃外匯管理有關問題的通知), issued by SAFE in February 2012, according to which, employees, directors, supervisors and other management members participating in any stock incentive plan of an overseas publicly listed company who are PRC citizens or who are non-PRC citizens residing in China for a continuous period of no less than one year, subject to limited exceptions, are required to register with SAFE through a domestic qualified agent, which could be a PRC subsidiary of such overseas listed company, and complete certain other procedures. Failure to complete SAFE registrations may subject them to fines and other legal sanctions and may also limit their ability to make payment under the equity incentive plans or receive dividends or sales proceeds related thereto, or our ability to contribute additional capital into our PRC subsidiaries and our PRC subsidiaries’ ability to distribute dividends to us. We also face regulatory uncertainties that could restrict our ability to adopt additional equity incentive plans for our Directors and employees under PRC laws and regulations.

In addition, SAT has issued certain circulars with respect to employee share option. Under these circulars, our employees working in China will be subject to PRC individual income tax if they exercise share options. Our PRC subsidiaries have the obligation to file documents relating to the employee share options with the relevant tax authorities and to withhold individual income tax for those employees. If our employees fail to pay or we fail to withhold income tax according to the relevant laws and regulations, we may face sanctions imposed by the relevant tax authorities.

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

Under the EIT Law and its implementation rules, subject to any applicable tax treaty or similar arrangement between the PRC and your jurisdiction of residence that provides for a different income tax arrangement, PRC withholding tax at the rate of 10.0% is normally applicable to dividends from PRC sources payable to investors that are non-PRC resident enterprises, which do not have an establishment or place of business in China, or which have such establishment or place of business if the relevant income

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is not effectively connected with the establishment or place of business. Any gain realised on the transfer of shares by such investors is subject to 10.0% PRC income tax if such gain is regarded as income derived from sources within China unless a treaty or similar arrangement otherwise provides. Under the PRC Individual Income Tax Law (中華人民共和國個人所得稅法) and its implementation rules, dividends from sources within China paid to foreign individual investors who are not PRC residents are generally subject to a PRC withholding tax at a rate of 20% and gains from PRC sources realised by such investors on the transfer of shares are generally subject to 20% PRC income tax, in each case, subject to any reduction or exemption set forth in applicable tax treaties and PRC laws.

One of our key business strategies is to continue expanding our business to attract users outside China. In 2017, we commenced to provide publishing services as co-publisher to certain games distributed through the iOS App Store in Hong Kong. It is unclear whether dividends we pay with respect to our Shares, or the gain realised from the transfer of our Shares, would be treated as income derived from sources within China and as a result be subject to PRC income tax if we are considered a PRC resident enterprise. If we are considered a PRC resident enterprise for tax purposes, any dividends we pay to our Shareholders may be regarded as income derived from sources within China and we may be required to withhold a 10.0% PRC withholding tax for the dividends we pay to our investors who are non-PRC corporate Shareholders, or a 20.0% withholding tax for the dividends we pay to our investors who are non-PRC individual Shareholders, including the holders of our Shares. In addition, our non-PRC Shareholders may be subject to PRC tax on gains realised on the sale or other disposition of our Shares, if such income is treated as sourced from within China. It is unclear whether our non-PRC Shareholders would be able to claim the benefits of any tax treaties between their tax residence and China in the event that we are considered as a PRC resident enterprise. If PRC income tax is imposed on gains realised through the transfer of our Shares or on dividends paid to our non-resident investors, the value of your investment in our Shares may be materially and adversely affected. Furthermore, our Shareholders whose jurisdictions of residence have tax treaties or arrangements with China may not qualify for benefits under such tax treaties or arrangements.

### **You may experience difficulties in effecting service of legal process and enforcing judgments against us and our management.**

We are incorporated in the Cayman Islands. Almost all of our assets and some of the assets of our Directors are located in China. Therefore, it may not be possible for investors to effect service of process upon us or those persons inside China. China has not entered into treaties or arrangements providing for the recognition and enforcement of judgments made by courts of most other jurisdictions. On 14 July 2006, the PRC Supreme Court and the Hong Kong government signed the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements between Parties Concerned (關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排). Under such arrangement, where any designated people's court of the PRC or any designated Hong Kong court has made an enforceable final judgment requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing by the parties, any party concerned may apply to the relevant people's court of the PRC or Hong Kong court for recognition and enforcement of the judgment. The arrangement came into effect on 1 August 2008, but the outcome and enforceability of any action brought under the arrangement is still uncertain. In addition, on 18 January 2019, the Supreme People's Court of the PRC and Department of Justice of the Hong Kong Special Administrative Region entered into the Arrangement for Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Cases by the Courts of the Mainland and of the Hong Kong Special Administrative Region (關於內地與香港特別行政區法院相互認可和執行民商事案件判決的安排), pending subsequent procedures to come into force pursuant to which effective judgments in civil and commercial cases, as well as effective judgments in criminal cases that involve civil compensation, with

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certain exceptions specified thereunder, made by the courts of the mainland or of Hong Kong may be applied for recognition and enforcement in the competent courts of the other place subject to satisfaction of conditions and following of procedures specified thereunder. However, China is not a party to any treaties providing for the reciprocal recognition and enforcement of judgments of courts with the United States, the United Kingdom, most other Western countries or Japan, and therefore enforcement in China of judgments of a court in any of these jurisdictions may be difficult or impossible.

### **Inflation in China could negatively affect our profitability and growth.**

Economic growth in China 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 China. 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.

### **An outbreak of any widespread public health problem, if uncontrolled, could have a negative impact on our business operations.**

An outbreak of any widespread public health problem in China, such as severe acute respiratory syndrome (also known as SARS), avian influenza, H1N1 influenza, MERS or the recent outbreak of the coronavirus (the COVID-19) (the “**Coronavirus Outbreak**”) (for details, please see “Summary — Recent development — Outbreak of coronavirus” in this prospectus), if protracted and uncontrolled, may result in the contraction of such disease among our employees or those with whom we conduct business on a regular basis, making it necessary to suspend or close certain parts of our operations to prevent the spread of the disease. In addition, if there is an outbreak of any widespread public health problem such as the recent Coronavirus Outbreak, we cannot assure you that the World Health Organization or the PRC government will not recommend, or even impose, travel restrictions and/or restrictions on the flow of goods to and from areas affected by the virus. For these reasons, an outbreak of any widespread public health problem could cause significant interruption to our business and have a significant impact upon our profitability.

## **RISKS RELATING TO OUR CORPORATE STRUCTURE**

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

Current PRC laws and regulations place certain restrictions or prohibitions on foreign investment in and ownership of entities that engage in a number of business activities, including value-added telecommunications services, internet cultural services and other related businesses. In particular, under the Special Management Measures (Negative List) for the Access of Foreign Investment (being the negative list) (version of 2019) (《外商投資准入特別管理措施(負面清單)(2019年版)》) and the Notice of the GAPP, the State Copyright Administration and National Anti-Pornography and Anti-Illegal Publications Working Group Office on Implementing the “Regulation on Three Provisions” of the State Council and the Interpretations Edited by the SCOPSR to Further Strengthen the Pre-Approval of Online Games and the Approval and Management of Imported Online Games (《關於貫徹落實國務院〈“三定”規定〉和中央編辦有關解釋，進一步加強網絡遊戲前置審批和進口網絡遊戲審批管理的通知》), the

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“GAPP Notice”), our game operation business involves provision of internet information service that constitutes value-added telecommunications services business, a foreign investment restricted business, and circulation of internet culture products that constitutes the internet cultural services business, a foreign investment prohibited business. We are a company incorporated in the Cayman Islands. To comply with PRC laws and regulations, we conduct our internet-related business in China through Dinglian Technology, one of our PRC Operating Entities, and its subsidiaries, based on a series of contractual arrangements by and among Khorgos Entertainment, our wholly-owned PRC subsidiary, Dinglian Technology and its shareholders. For a description of the Contractual Arrangements, see “Contractual Arrangements” in this prospectus. As a result of these contractual arrangements, we exert control over Dinglian Technology and its subsidiaries and consolidate or combine their operating results into our financial statements. Dinglian Technology and its subsidiaries hold the licences, approvals and key assets that are essential for the operations of our internet-related businesses.

There are substantial uncertainties regarding the interpretation and application of current or future PRC laws and regulations. The relevant PRC regulatory authorities have broad discretion in determining whether a particular contractual structure violates PRC laws and regulations. Thus, we cannot assure you that the PRC government will not ultimately take a view contrary to the opinion of our PRC Legal Advisers. If we are found in violation of any PRC laws or regulations or if the contractual arrangements among Khorgos Entertainment, Dinglian Technology and its shareholders are determined as illegal or invalid by any PRC court, arbitral tribunal or regulatory authorities, the relevant governmental authorities would have broad discretion in dealing with such violation, including, without limitation:

- nullifying the Contractual Arrangements; levying fines and/or confiscating the proceeds that they deem to have been obtained through non-compliant operations;
- revoking our business and operating licences;
- requiring us to discontinue or restrict operations;
- restricting our right to collect revenue;
- shutting down all or part of our websites or services;
- requiring us to undergo a costly and disruptive restructuring in such a way as to compel us to establish a new enterprise, re-apply for the necessary licences or relocate our businesses, staff and assets;
- imposing additional conditions or requirements with which we may not be able to comply; and
- taking other regulatory or enforcement actions that could be harmful to or even shut down our business.

The imposition of any of the above-mentioned consequences could result in a material and adverse effect on our ability to conduct our business through contractual arrangements. In addition, new PRC laws, rules and regulations may be introduced to impose additional requirements that may impose additional challenges to our corporate structure and contractual arrangement. The occurrence of any of these events or the imposition of any of these penalties may result in a material and adverse effect on our ability to conduct the business. In addition, if the imposition of any of these consequences causes us to lose the rights to direct the activities of Dinglian Technology and its subsidiaries or our right to receive their economic benefits, we would no longer be able to consolidate the financial results of Dinglian Technology and its subsidiary, thus adversely affect our results of operation.



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**We rely on the Contractual Arrangements to control and obtain the economic benefits from Dinglian Technology, our operating entity in China, which may not be as effective in providing operational control as direct ownership.**

Due to China's legal restrictions on foreign investment in online game operators, we control, through the Contractual Arrangements rather than equity ownership, Dinglian Technology, our operating entity in China and the holder of the key licences required to operate our online game business in China. For a description of the Contractual Arrangements, see "Contractual Arrangements" in this prospectus.

However, the Contractual Arrangements still may not be as effective in exercising control over Dinglian Technology as equity ownership. For example, Dinglian Technology and its shareholders could breach or fail to perform their obligations under the Contractual Arrangements. If we had direct ownership of Dinglian Technology, we would be able to exercise our rights as a shareholder to effect changes in its board of directors, which in turn could effect changes, subject to any applicable fiduciary obligations, at the management and operational level. Under the Contractual Arrangements, we would need to rely on rights of Khorgos Entertainment under the Exclusive Business Operation Agreement and Powers of Attorney to effect such changes, or designate new shareholders for Dinglian Technology under the Exclusive Option Agreement.

If Dinglian Technology or its shareholders breached their obligations under the Contractual Arrangements or if we lose the effective control over Dinglian Technology for any reason, we would need to bring a claim against them under the terms of the Contractual Arrangements. The Contractual Arrangements are governed by the PRC law and provide that any dispute arising from these arrangements will be submitted to the China International Economic and Trade Arbitration Commission, for arbitration, the ruling of which will be final and binding. Furthermore, personal liabilities of the shareholders of Dinglian Technology may also subject the equity interest they hold in Dinglian Technology to court preservation actions or enforcement. The legal framework and system in China, particularly those relating to arbitration proceedings, is not as developed as other jurisdictions such as Hong Kong. As a result, significant uncertainties relating to the enforcement of legal rights through arbitration, litigation and other legal proceedings remain in China, which could limit our ability to enforce the Contractual Arrangements and exert effective control over Dinglian Technology. If Dinglian Technology or any of its shareholders fails to perform its respective obligations under the Contractual Arrangements, and we are unable to enforce the Contractual Arrangements, or suffer significant delay or other obstacles in the process of enforcing the Contractual Arrangements, our business and operations could be severely disrupted, which could materially adversely affect our results of operations.

Our control over our PRC Operating Entities is based upon the Contractual Arrangements with Dinglian Technology and the Registered Shareholders. The Registered Shareholders are direct holders of the equity interest of Dinglian Technology and also the ultimate beneficial owners of our Company. The Registered Shareholders may potentially have conflicts of interest with us or breach their contracts or undertakings with us if it would further their own interest or if they otherwise act in bad faith. We cannot assure you that when conflicts arise between us on the one hand, and Dinglian Technology or our PRC Operating Entities on the other hand, the Registered Shareholders will act completely in our interest or that the conflicts will be resolved in our favor. In the event that such conflict of interest cannot be resolved in our favor, 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 are unable to resolve such conflicts, including if the Registered Shareholders breached their contracts or undertakings with us and as a result or otherwise we are subject to claims from third parties, our business, financial condition and operations could be materially and adversely affected.

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### **Certain terms of the Contractual Arrangements may not be enforceable under PRC laws.**

The Contractual Arrangements provide for dispute resolution by way of arbitration in accordance with the arbitration rules of the China International Economic and Trade Arbitration Commission. The Contractual Arrangements contain provisions to the effect that the arbitral body may award remedies over the shares and/or assets of Dinglian Technology, injunctive relief and/or winding up of Dinglian Technology. In addition, the Contractual Arrangements contain provisions to the effect that courts in Hong Kong and the Cayman Islands are empowered to grant interim remedies in support of the arbitration pending the formation of an arbitral tribunal.

However, we have been advised by our PRC Legal Advisers that the abovementioned provisions contained in the Contractual Arrangements may not be enforceable. Under PRC laws, an arbitral body does not have the power to grant any injunctive relief or provisional or final liquidation order to preserve the assets of or any equity interest in Dinglian Technology in case of disputes. Therefore, such remedies may not be available to us, notwithstanding the relevant contractual provisions contained in the Contractual Arrangements. PRC laws allow an arbitral body to award the transfer of assets of or an equity interest in Dinglian Technology in favor of an aggrieved party. In the event of non-compliance with such award, enforcement measures may be sought from the court. However, the court may or may not support the award of an arbitral body when deciding whether to take enforcement measures. Under PRC laws, courts of judicial authorities in the PRC generally would not grant injunctive relief or the winding-up order against Dinglian Technology as interim remedies to preserve the assets or shares in favor of any aggrieved party. Our PRC Legal Advisers are also of the view that, even though the Contractual Arrangements provide that courts in Hong Kong and the Cayman Islands may grant and/or enforce interim remedies or in support of arbitration, such interim remedies (even if so granted by courts in Hong Kong or the Cayman Islands in favor of an aggrieved party) may not be recognised or enforced by PRC courts. As a result, in the event that Dinglian Technology or any of its shareholders breaches any of the Contractual Arrangements, we may not be able to obtain sufficient remedies in a timely manner, and our ability to exert effective control over Dinglian Technology and conduct our business could be materially and adversely affected.

### **We may lose the ability to use and enjoy assets held by our VIE that are important to the operation of our business if our VIE declares bankruptcy or becomes subject to a dissolution or liquidation proceeding.**

Dinglian Technology holds certain assets that are important to our business operations. Our Contractual Arrangements with Dinglian Technology and its shareholders contain terms that specifically obligate its shareholders to ensure the valid existence of Dinglian Technology and that Dinglian Technology may not be voluntarily liquidated. However, in the event the shareholders breach this obligation and voluntarily liquidate Dinglian Technology, or Dinglian Technology declares bankruptcy, and all or part of its assets become subject to the receiver's control, or is otherwise dissolved, we may be unable to continue some or all of our business operations, which could materially and adversely affect our business, financial condition and results of operations. Furthermore, if Dinglian Technology undergoes a voluntary or involuntary liquidation proceeding, its shareholders or unrelated third-party creditors may claim rights to some or all of these assets, thereby hindering our ability to operate our business, which could materially and adversely affect our business, financial condition and results of operations.

### **The Contractual Arrangements between Khorgos Entertainment and Dinglian Technology may subject our Group to increased income tax in the event of different income tax rates applicable to Khorgos Entertainment and Dinglian Technology, which may adversely affect our results of operations.**

Under the Contractual Arrangements, Dinglian Technology is required to pay to Khorgos Entertainment service fees that equal to the profit before taxation of Dinglian Technology, after offsetting

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the prior-year loss (if any), deducting statutory reserve fund as required by the law expenses and tax of Dinglian Technology in any given year, and Khorgos Entertainment has the right to adjust the level of the service fees based on the actual service scope and with reference to the operating conditions and expansion needs of Dinglian Technology. Such service fee payments to Khorgos Entertainment reduce Dinglian Technology's taxable income and correspondingly increase the taxable income of Khorgos Entertainment. Dinglian Technology and Khorgos Entertainment may be subject to different income tax rates which may be amended by the PRC tax authorities from time to time. In the case where the tax rate applicable to Khorgos Entertainment become less favourable than the tax rate applicable to Dinglian Technology, our results of operations, particularly, our income tax expenses and net profit on a consolidated basis may be affected.

Our profit attributable to our Shareholders is affected by the level of taxation that we are obliged to pay and the level of preferential tax treatment to which we may be entitled to. During the Track Record Period, Dinglian Technology, Khorgos Dinglian and Beihai Dinglian enjoyed various preferential tax treatments in the PRC. For details, see "Financial information — Description of selected items in consolidated statements of profit or loss and other comprehensive income — Taxation" in this prospectus. Our taxation amounted to RMB20,000 and RMB5.1 million for FY2017 and FY2018, respectively, and we recorded tax credit amounted to RMB0.2 million for FY2019. If our Group no longer enjoys such preferential tax treatments in the future, our income tax expenses may increase and our financial performance may be adversely affected.

**The Contractual Arrangements between Khorgos Entertainment and Dinglian Technology may be subject to scrutiny by the PRC tax authorities and any finding that we or Dinglian Technology owe additional taxes could substantially reduce our consolidated net income and the value of your investment.**

Under the Contractual Arrangements among Khorgos Entertainment and Dinglian Technology and its equity holders, Dinglian Technology will transfer substantially all of its profit before tax to Khorgos Entertainment (less any accumulated loss, statutory reserve fund, expenses and tax of Dinglian Technology in a given year), which will substantially reduce Dinglian Technology's taxable income. These arrangements and transactions are related party transactions which must be conducted on an arm's length basis under applicable PRC tax rules, if these arrangements and transactions fail to conform to the arm's-length principle, the tax authority may make special tax adjustments on the basis of the full amount that has been deducted before tax payment. As a result, the determination of service fees and other payments to Khorgos Entertainment by Dinglian Technology under the Contractual Arrangements may be challenged and deemed not in compliance with such tax rules. We could face material and adverse tax consequences if the PRC tax authorities determine that the Contractual Arrangements were not entered into on an arm's-length basis and therefore adjust the taxable income of Dinglian Technology in the form of a transfer pricing adjustment which refers to the prices that one member of a group of affiliated corporation's charges to another member of the group for goods, assets, services, financing or the use of intellectual property. A transfer pricing adjustment could, among other things, result in a reduction, for PRC tax purposes, of expense deductions recorded by Dinglian Technology, which could in turn increase Dinglian Technology's tax liabilities. Any such adjustment could result in a higher overall tax liability of our Group. In addition, the PRC tax authorities may impose late payment fees and other penalties on Dinglian Technology for any unpaid taxes. Our consolidated net income may be materially adversely affected if Dinglian Technology's tax liabilities increase or if it is subject to late payment fees or other penalties.

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**If we exercise the option to acquire equity ownership or assets of Dinglian Technology, the ownership transfer may subject us to substantial costs.**

By virtue of our Contractual Arrangement, Khorgos Entertainment has the exclusive right to purchase all or any part of the equity interests in Dinglian Technology from its respective shareholders for a nominal price, unless the relevant governmental authorities request that another amount be used as the purchase price and in which case the purchase price shall be such amount. Khorgos Entertainment also has the exclusive right to purchase all or any part of the assets in Dinglian Technology at nominal price, unless the relevant governmental authorities request that another amount be used as the purchase price and in which case the purchase price shall be such amount. Where the purchase price is required by the relevant governmental authorities to be an amount other than an agreed price, the respective shareholders shall return the amount of purchase price they have received to Khorgos Entertainment. If such a transfer takes place, the competent tax authority may require Khorgos Entertainment to pay enterprise income tax for ownership transfer income with reference to the market value instead of the price as stipulated under our Contractual Arrangement, in which case Khorgos Entertainment may be subject to a substantial amount of tax.

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

On 15 March 2019, the National People's Congress of the PRC adopted the Foreign Investment Law, which came into effect as at 1 January 2020. Since its coming into effect, the Foreign Investment Law has replaced the Sino-Foreign Equity Joint Venture Enterprise Law (《中外合資經營企業法》), the Sino-Foreign Cooperative Joint Venture Enterprise Law (《中外合作經營企業法》) and the Wholly Foreign-Invested Enterprise Law (《外資企業法》) to become the legal foundation for foreign investment in the PRC. The Foreign Investment Law stipulates certain forms of foreign investment. However, the Foreign Investment Law does not explicitly stipulate the contractual arrangements as a form of foreign investment. For further details of the Foreign Investment Law, see “Contractual Arrangements — Legal development in the PRC regarding foreign investment” in this prospectus.

As advised by our PRC Legal Advisers, since contractual arrangements are not specified as investments under the Foreign Investment Law, and if future laws, administrative regulations and provisions of the State Council do not incorporate contractual arrangements as a form of foreign investment, our Contractual Arrangements as a whole and each of the agreements comprising the Contractual Arrangements will not be affected.

Notwithstanding the above, the Foreign Investment Law stipulates that foreign investment includes “foreign investors invest through any other methods under laws, administrative regulations or provisions prescribed by the State Council”. 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, and then whether our Contractual Arrangements will be recognised as foreign investment, whether our Contractual Arrangements will be deemed to be in violation of the foreign investment access requirements and how the above-mentioned Contractual Arrangements will be handled are uncertain. Therefore, there is no guarantee that our Contractual Arrangements and the business of our PRC Operating Entities will not be materially and adversely affected in the future.

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In the extreme case-scenario, we may be required to unwind the Contractual Arrangements and/or dispose of our PRC Operating Entities, which could have a material and adverse effect on our business, financial conditions and result of operations. In the event that our Company no longer has a sustainable business after the aforementioned unwinding or disposal or when such requirements are not complied with, the Stock Exchange may take enforcement actions against us which may have a material adverse effect on the trading of our Shares or even result in delisting of our Company.

### **RISKS RELATING TO THE GLOBAL OFFERING**

**There has been no prior market for our Shares, and the liquidity and market price of our Shares following the Global Offering may be volatile.**

Prior to the Global Offering, there has been no public market for our Shares. The initial price range disclosed to the public for our Shares was the result of negotiations among us and the Joint Global Coordinators, and the Offer Price may differ significantly from the market price for the Shares following the Global Offering. We have applied to list and deal in the Shares on the Stock Exchange. We cannot assure you that the Global Offering will result in the development of an active, liquid public trading market for the Shares. In addition, the price and trading volumes of the Shares may be volatile. Factors such as variations in our revenue, earnings and cash flows or any other developments relating to our Company may affect the volume and price at which the Shares will be traded.

**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 Stock Exchange until they are delivered, which is expected to be five Hong Kong business days after the pricing 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 development, that could occur between the time of sale and the time trading begins.

**Investors will experience immediate dilution to their attributable net tangible book value as the Offer Price of our Shares is higher than our net tangible book value per Share.**

The Offer Price of the Shares is higher than the net tangible book value per Share prior to the Global Offering. Therefore, purchasers of the Shares in the Global Offering will experience an immediate dilution in pro forma net tangible book value, and our existing Shareholders will receive an increase in the pro forma adjusted consolidated net tangible assets value per Share of their Shares. In addition, holders of our Shares may experience further dilution of their interests if the Underwriters exercise the Over-allotment Option or if we obtain additional capital in the future through equity offerings.

**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. For details of our intended use of proceeds, see “Future plans and use of proceeds” in this prospectus. 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.

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**Any future sales, or perceived sale, of a substantial amount of our Shares in the public market could have a material adverse effect on the prevailing market price of our Shares and our ability to raise capital in the future.**

Future sales of a substantial amount of our Shares by our existing Shareholders, or the possibility of such sales, could negatively impact the market price of our Shares from time to time. See “Underwriting — Undertakings to the Stock Exchange under the Listing Rules — By our Controlling Shareholders” and “Underwriting — Undertakings pursuant to the Hong Kong Underwriting Agreement” in this prospectus for a more detailed discussion of restrictions that may apply to future sales of our Shares. After these restrictions lapse, the market price of our Shares may decline as a result of future sales of a substantial amount of our Shares or other securities relating to our Shares in the public market, the issuance of new Shares or other securities relating to our Shares, or the perception that such sales or issuances may occur. This could negatively affect the market price of our Shares and our ability to raise equity capital in the future.

**We may not be able to pay any dividends on our Shares.**

We cannot guarantee when and in what form dividends will be paid on our Shares following the Global Offering. The declaration of dividends is proposed by the Board and is based on, and limited by, various factors, including without limitation, our business and financial performance, capital and regulatory requirements and general business conditions. We may not 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. For details, see “Financial Information — Dividend and dividend policy” in this prospectus.

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

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

**Certain facts, forecasts and statistics in this prospectus relating to various countries and regions and the economic conditions thereof and the industry of online game development and publishing derived from official government publications, market data providers and other Independent Third-Party sources may not be reliable.**

Certain facts, forecasts and other statistics in this prospectus relating to various countries and regions and the online game industry are derived from various official government publications, market data providers and other Independent Third-Party sources, including the CIC Report, which we generally believe to be reliable. However, we cannot guarantee the quality or reliability of such source materials. They have not been prepared or independently verified by us, the Selling Shareholders, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-Managers, the Underwriters or any of their respective affiliates or advisers and, therefore, we make no representation as to the accuracy of such facts and statistics, which may not be consistent with other information compiled within or outside China.

## RISK FACTORS

We have, however, taken reasonable care in the reproduction or extraction of the official government publications and reports of other market data providers and other Independent Third-Party sources for the purpose of disclosure in this prospectus. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice, these facts and statistics in this prospectus may be inaccurate or may not be comparable to facts and statistics produced with respect to other economies. Further, we cannot assure you that they are stated or compiled on the same basis or with the same degree of accuracy as the case may be in other jurisdictions. In all cases, investors should give consideration as to how much weight or importance they should attach to or place on such facts.

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

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

## WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

In preparation for the Global Offering, we have sought the following waivers from strict compliance with the requirements under certain provisions of the Listing Rules.

### MANAGEMENT PRESENCE

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

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

- (a) we have appointed two authorised representatives pursuant to Rule 3.05 of the Listing Rules, who will act as our principal channel of communication with the Stock Exchange and ensure that we will comply with the Listing Rules at all times. The two authorised representatives are Mr. Sui (our executive Director) and Ms. Wan Yin Yee (our company secretary). Our authorised representatives will be readily contactable by telephone, facsimile and email and will be at all times available to meet with the Stock Exchange on short notice as and when required and will be able to contact our Directors promptly at all times as and when the Stock Exchange wishes to contact our Directors on any matters. Each of our authorised representatives will provide his/her office phone numbers, mobile phone numbers, facsimile numbers and email addresses to the Stock Exchange;
- (b) each of our Directors (including our non-executive Director and independent non-executive Directors) holds valid travel documents and will be available to travel to Hong Kong to meet with the Stock Exchange within a reasonable timeframe upon request. Each of them will be readily contactable by telephone, facsimile and email and is authorised to communicate on our behalf with the Stock Exchange;
- (c) we have appointed WAG Worldsec Corporate Finance Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules, who will have access at all times to our authorised representatives, our Directors and other members of our senior management and will act as our additional channel of communication with the Stock Exchange for a period commencing on the Listing Date and ending on the date on which we distribute the annual report for the first full financial year after the Listing Date in accordance with Rule 13.46 of the Listing Rules. Our compliance adviser will have access at all times to the authorised representatives, our Directors and other members of our senior management to ensure that it is in a position to provide prompt responses to any queries or requests from the Stock Exchange;
- (d) to further enhance communication among the Stock Exchange, our authorised representatives and our Directors, we have implemented a policy whereby: (i) each Director will have to provide his/her mobile phone number, office phone number, facsimile number and email address to our authorised representatives; (ii) in the event that a Director expects to travel and be out of office, he/she will have to provide the phone number of the place of his/her accommodation or other means of communications to our authorised representatives; and (iii) all Directors will provide their mobile phone numbers, office phone numbers, facsimile numbers and email addresses to the Stock Exchange;



## WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

- (e) meetings between the Stock Exchange and our Directors could be arranged through our authorised representatives or our compliance adviser, or directly with our Directors within a reasonable timeframe; and
- (f) our Company will also appoint other professional advisers (including legal advisers and accountants) after the Listing to assist our Company in dealing with any queries or questions raised by the Stock Exchange and to ensure that there will be efficient communication with the Stock Exchange.

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

### CONTINUING CONNECTED TRANSACTIONS

We have entered into the Contractual Arrangements which would constitute continuing connected transactions of our Company under the Listing Rules upon Listing. Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver in relation to certain continuing connected transactions between us and our connected persons under Chapter 14A of the Listing Rules for such continuing connected transactions. For details, please see “Connected transactions” and “Contractual Arrangements” in this prospectus.

## INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

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

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

### **SELLING SHAREHOLDERS**

As part of the Global Offering, the Selling Shareholders will offer in aggregate 24,000,000 Sale Shares under the Global Offering, representing 24.0% of the total number of Offer Shares.

### **UNDERWRITING**

This prospectus is published solely in connection with the Hong Kong Public Offering which forms part of the Global Offering. Details of the terms of the Global Offering are described in "Structure and conditions of the Global Offering" in this prospectus and in the related Application Forms.

The Listing is sponsored by the Sole Sponsor and the Global Offering is managed by the Joint Global Coordinators. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters and the International Offering is expected to be fully underwritten by the International Underwriters.

### **RESTRICTIONS ON SALE OF THE OFFER SHARES**

No action has been taken to permit a public offering of the Offer Shares, other than in Hong Kong, or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, and without limitation to the following, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any such circumstances such offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation.

The distribution of this prospectus or the related Application Forms and the offering and sales of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom. In particular, the Offer Shares have not been offered and sold, and will not be offered or sold, directly or indirectly, in the PRC or the United States, except in compliance with the relevant laws and regulations of each of such jurisdictions.

No action has been taken to register or qualify the Offer Shares or the Global Offering, or otherwise to permit a public offering of the Offer Shares, in any jurisdiction outside Hong Kong. The distribution of this prospectus and the related Application Forms in jurisdictions outside Hong Kong may be restricted by law and therefore persons into whose possession this prospectus or any of the related Application Forms comes should inform themselves about, and observe, any such restrictions. Any failure to comply with these restrictions may constitute a violation of the applicable securities laws.

**Each person acquiring the Offer Shares will be required to confirm, or be deemed by his or her or its acquisition of the Offer Shares to have confirmed, that he or she or it is aware of the restrictions on offer of the Offer Shares described in this prospectus.**

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

Prospective applicants for the Offer Shares should consult their financial advisers and seek legal advice, as appropriate, to inform themselves of, and to observe, all applicable laws, rules and regulations of any relevant jurisdiction. Prospective applicants for the Offer Shares should also inform themselves as to the relevant legal requirements and any applicable exchange control regulations and applicable taxes in the countries of their respective citizenship, residence or domicile.

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

Our Company has applied to the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering (including any Shares which may be issued pursuant to the exercise of the Over-allotment Option and any option which may be granted under the Share Option Scheme).

No part of the share or loan capital of our Company is listed, traded or dealt in on any stock exchange and save as disclosed herein, no such listing or permission to deal is being or proposed to be sought.

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

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

All the Offer Shares will be registered on the Hong Kong branch register of members to be maintained by Tricor Investor Services Limited. Dealings in the Offer Shares registered on our Company's branch register of members maintained in Hong Kong will be subject to Hong Kong stamp duty. Dealings in the Shares registered on the principal register of members of our Company maintained by Conyers Trust Company (Cayman) Limited in the Cayman Islands will not be subject to the Cayman Islands stamp duty.

### **PROFESSIONAL TAX ADVICE RECOMMENDED**

Potential applicants for the Global Offering are recommended to consult their professional advisers if they are in doubt as to the taxation implications of the subscription for, holding, purchase, disposal of or dealing in the Shares or exercising their rights thereunder. It is emphasised that none of our Company, our Directors, the Selling Shareholders, the Sponsor, the Underwriter, their respective directors or any other person involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of, holders of Shares resulting from the subscription for, holding, purchase, disposal of or dealing in the Offer Shares or the exercise of their rights thereunder.

### **REGISTRATION OF SUBSCRIPTION, PURCHASE AND TRANSFER OF SHARES**

We have instructed Tricor Investor Services Limited, our Hong Kong Branch Share Registrar, and it has agreed, not to register the subscription, purchase or transfer of any Shares in the name of any particular holder unless and until the holder delivers a signed form to our Hong Kong Branch Share Registrar in respect of those Shares bearing statements to the effect that the holder:

- agrees with us and each of our Shareholders, and we agree with each Shareholder, to observe and comply with the Companies Law and our Articles of Association;
- agrees with us and each of our Shareholders that the Shares are freely transferable by the holders thereof; and

## INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

- authorises us to enter into a contract on his or her behalf with each of our Directors, managers and officers whereby such Directors, managers and officers undertake to observe and comply with their obligations to our Shareholders as stipulated in our Articles of Association.

### ROUNDING

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

### STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

Details of the structure of the Global Offering are set out in “Structure and conditions of the Global Offering” in this prospectus.

### PROCEDURES FOR APPLICATION FOR HONG KONG OFFER SHARES

The procedure for applying for the Hong Kong Offer Shares is set out in “How to apply for the Hong Kong Offer Shares” in this prospectus and on the related Application Forms.

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

Subject to the approval of the listing of, and permission to deal in, the Shares on the Stock Exchange and our Company’s 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, under contingent situation, any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made for the Shares to be admitted into CCASS. If investors are unsure about the details of CCASS settlement arrangement and how such arrangements will affect their rights and interests, they should seek the advice of their stockbroker or other professional adviser.

### COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares are expected to commence on or about Wednesday, 15 July 2020. The Shares will be traded in board lots of 2,000 Shares each.

### LANGUAGE

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail. If there is any inconsistency between the Chinese names of the Chinese entities mentioned in this prospectus and their English translation, the Chinese names shall prevail.

### CURRENCY TRANSLATIONS

Solely for your convenience, this prospectus contains translations of certain Renminbi amounts into Hong Kong dollars at a specified rate. You should not construe these translations as representations that the Renminbi amounts could actually be, or have been, converted into Hong Kong dollar amounts at the rate indicated or at all. Unless we indicate otherwise, the translations of Renminbi amounts into Hong Kong dollars have been made at the rate of RMB1.00 to HK\$1.0914.

<b>DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING</b>
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**DIRECTORS**

Name	Residential address	Nationality
<b>Executive Directors</b>		
Sui Jiaheng (隋嘉恒)	6A, Unit 2, Block B Sanxianghaishang Garden 1 No. 2277 Keyuan South Road Shenzhen Bay Section Nanshan District, Shenzhen Guangdong, China	Chinese
Li Haijun (李海軍)	Room 13A05, Building 5 Golden International, Dongmen Town Luocheng Mulao Autonomous County Guangxi, China	Chinese
He Shaoning (何紹寧)	No.161, Jiefang Road, Dongmen Town Luocheng Mulao Autonomous County Guangxi, China	Chinese
<b>Non-executive Director</b>		
Huang Zhigang (黃志剛)	Room 801, Building 13 Xincheng Garden Xiangcheng District Zhangzhou Fujian, China	Chinese
<b>Independent Non-executive Directors</b>		
Zhang Chunmei (張春梅)	Room 3310, Block A, Lianhe Square No.5022 Binhe Avenue, Futian District Shenzhen Guangdong, China	Chinese
Deng Chunhua (鄧春華)	No.2-102 No.20 Donghai Street Beihai City Guangxi, China	Chinese
Chen Nan (陳楠)	Room D, 34th Floor, Nord Center Fuzhongsan Road Futian District Shenzhen Guangdong, China	Chinese

For details of our Directors and senior management, please see “Directors and senior management” in this prospectus.

## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

### PARTIES INVOLVED IN THE GLOBAL OFFERING

#### Sole Sponsor

**WAG Worldsec Corporate Finance Limited**  
Suite 1101, 11/F Champion Tower  
3 Garden Road, Central  
Hong Kong

#### Joint Global Coordinators and Joint Lead Managers

**Huajin Securities (International) Limited**  
Suite 1101, 11/F Champion Tower  
3 Garden Road, Central  
Hong Kong

**Zhongtai International Securities Limited**  
19/F Li Po Chun Chambers  
189 Des Voeux Road Central, Central  
Hong Kong

**China Tonghai Securities Limited**  
18/F-19/F China Building  
29 Queen's Road Central  
Hong Kong

#### Joint Bookrunners

**Huajin Securities (International) Limited**  
Suite 1101, 11/F Champion Tower  
3 Garden Road, Central  
Hong Kong

**Zhongtai International Securities Limited**  
19/F Li Po Chun Chambers  
189 Des Voeux Road Central, Central  
Hong Kong

**China Tonghai Securities Limited**  
18/F-19/F China Building  
29 Queen's Road Central  
Hong Kong

**BOCOM International Securities Limited**  
15/F Man Yee Building  
68 Des Voeux Road Central  
Hong Kong

**Guosen Securities (HK) Capital Company Limited**  
Suites 3207-3212 on Level 32, One Pacific Place  
88 Queensway, Hong Kong

**DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING**

**Soochow Securities International Brokerage Limited**

Level 17, Three Pacific Place  
1 Queen's Road East  
Hong Kong

**Orient Securities (Hong Kong) Limited**

28th and 29th Floor  
100 Queen's Road Central  
Hong Kong

**Co-Managers**

**Eddid Securities and Futures Limited**

23/F, YF Life Tower  
33 Lockhart Road, Wan Chai  
Hong Kong

**Gransing Securities Co., Limited**

Unit 2508, 25/F., Cosco Tower  
183 Queen's Road Central  
Hong Kong

**GEO Securities Limited**

Room 1707, Harcourt House  
39 Gloucester Road  
Wanchai  
Hong Kong

**Legal advisers to our Company**

*As to Hong Kong law*

**Mayer Brown**

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

*As to Cayman Islands law*

**Conyers Dill & Pearman**

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

*As to PRC law*

**Jingtian & Gongcheng**

34/F, Tower 3  
China Central Place  
77 Jianguo Road  
Beijing  
PRC

**DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING**

	<p><i>As to International Sanctions law</i> <b>Hogan Lovells</b> 11/F, One Pacific Place 88 Queensway Hong Kong</p>
<b>Legal advisers to the Sole Sponsor and the Underwriters</b>	<p><i>As to Hong Kong law</i> <b>Loeb &amp; Loeb LLP</b> 21st Floor, CCB Tower 3 Connaught Road Central Hong Kong</p> <p><i>As to PRC law</i> <b>Zhong Lun Law Firm</b> 23/F, R&amp;F Center 10 Huaxia Road Pearl River New Town Tianhe District Guangzhou PRC</p>
<b>Reporting accountants and auditors</b>	<p><b>Deloitte Touche Tohmatsu</b> <i>Certified Public Accountants</i> <i>Registered Public Interest Entity Auditors</i> 35/F, One Pacific Place 88 Queensway, Admiralty Hong Kong</p>
<b>Industry consultant</b>	<p><b>China Insights Industry Consultancy Limited</b> 10F, Block B, Jing'an International Center 88 Puji Road Jing'an District Shanghai PRC</p>
<b>Receiving bank</b>	<p><b>Standard Chartered Bank (Hong Kong) Limited</b> 15/F, Standard Chartered Tower 388 Kwun Tong Road, Kwun Tong Hong Kong</p>
<b>Selling Shareholders</b>	<p><b>LHTH Tech Holding Ltd.</b> 30 de Castro Street, Wickhams Cay 1, P.O. Box 4519 Road Town, Tortola, British Virgin Islands</p> <p><b>LYZ Tech Holding Ltd.</b> 30 de Castro Street, Wickhams Cay 1, P.O. Box 4519 Road Town, Tortola, British Virgin Islands</p> <p><b>Knowledge ZH Holding Ltd.</b> 30 de Castro Street, Wickhams Cay 1, P.O. Box 4519 Road Town, Tortola, British Virgin Islands</p>



## CORPORATE INFORMATION

<b>Registered office</b>	Cricket Square, Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
<b>Principal place of business in the PRC</b>	Room 1-4, Floor 8, Fortune Plaza No.4 Deshan Road, Luocheng Dongmen Town Luocheng Mulao Autonomous County Hechi City Guangxi, China
<b>Principal place of business in Hong Kong</b>	19/F., Beverly House 93-107 Lockhart Road Wanchai Hong Kong
<b>Company secretary</b>	Wan Yin Yee (尹燕兒), <i>ACIS, ACS</i> Level 54, Hopewell Centre 183 Queen's Road East Hong Kong
<b>Compliance adviser</b>	<b>WAG Worldsec Corporate Finance Limited</b> Suite 1101, 11/F Champion Tower 3 Garden Road, Central Hong Kong
<b>Authorised representatives</b>	Sui Jiaheng (隋嘉恒) 6A, Unit 2, Block B Sanxianghaishang Garden 1 No. 2277 Keyuan South Road Shenzhen Bay Section Nanshan District, Shenzhen Guangdong, China  Wan Yin Yee (尹燕兒) Level 54, Hopewell Centre 183 Queen's Road East Hong Kong
<b>Members of Audit Committee</b>	Zhang Chunmei (張春梅) ( <i>Chairlady</i> ) Deng Chunhua (鄧春華) Chen Nan (陳楠)
<b>Members of Remuneration Committee</b>	Deng Chunhua (鄧春華) ( <i>Chairman</i> ) Zhang Chunmei (張春梅) Chen Nan (陳楠)

## CORPORATE INFORMATION

<b>Members of Nomination Committee</b>	Sui Jiaheng (隋嘉恒) ( <i>Chairman</i> ) Zhang Chunmei (張春梅) Deng Chunhua (鄧春華)
<b>Cayman Islands Principal Share Registrar and Transfer Office</b>	<b>Conyers Trust Company (Cayman) Limited</b> Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
<b>Hong Kong Branch Share Registrar and transfer office</b>	<b>Tricor Investor Services Limited</b> Level 54, Hopewell Centre 183 Queen's Road East Hong Kong
<b>Principal banker</b>	<b>Postal Savings Bank of China</b> Changchun Road Luocheng Mulao Autonomous County Hechi City Guangxi, China
<b>Company's website</b>	<b><u><a href="http://www.dingliangame.com">www.dingliangame.com</a></u></b>  <i>(Information on this website does not form part of this prospectus)</i>

## INDUSTRY OVERVIEW

*Certain information and statistics set out in this section and elsewhere in this prospectus relating to the mobile game industry in the PRC are derived from the CIC Report prepared by CIC, an independent industry consultant which was commissioned by us. The information extracted from the CIC Report should not be considered as a basis for investments in the Offer Shares or as an opinion of CIC as to the value of any securities or the advisability of investing in our Group. We believe that the sources of such information and statistics are appropriate for such information and statistics and have taken reasonable care in extracting and reproducing such information and statistics. We have no reason to believe that such information and statistics are false or misleading or that any fact has been omitted that would render such information and statistics false or misleading in any material respect. Our Directors have further confirmed, after making reasonable enquiries and exercising reasonable care, that there is no adverse change in the market information since the date of publication of the CIC Report or any of the other reports which may qualify, contradict or have an impact on the information in this section. No independent verification has been carried out on such information and statistics by our Group, the Selling Shareholders, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-managers, the Underwriters, any of our or their respective directors, officers or representatives or any other person involved except CIC in the Global Offering and no representation is given as to its accuracy, completeness or fairness. Accordingly, you should not place undue reliance on such information and statistics.*

*Unless and except for otherwise specified, the market and industry information and data presented in this Industry Overview section is derived from the CIC Report. The information in this section may not be consistent with that compiled by other sources.*

We commissioned China Insights Industry Consultancy Limited, a market research and consulting company and an Independent Third Party (“**CIC**”), to conduct research and analysis of, and to produce a report on the mobile game industry in the PRC for the period from 2015 to 2024 (the “**CIC Report**”). The CIC Report has been prepared by CIC independent of the influence of our Group and other interested parties. We paid CIC a total fee of RMB700,000 for the preparation and use of the CIC Report, and we believe that such fees are consistent with the market rate. CIC is a consulting firm founded in Hong Kong and provides professional industry consulting services across multiple industries. CIC’s services include industry consultancy services, commercial due diligence and strategic consulting.

In compiling and preparing the CIC Report, CIC has adopted the following assumptions: (i) the economic and industry development in the PRC is likely to maintain a steady growth in the next decade; (ii) related key industrial drivers are likely to drive the growth of the mobile game industry in the PRC during the forecast period, such as technological readiness provided by mobile phones and advanced internet access, expanded use of mobile devices and games played at shorter intervals, well-established industry value chain, and economic development shifting towards the service sector; and (iii) no extreme force majeure event or industry regulation will have a dramatic or fundamental impact on the market.

CIC has conducted primary research which involved interviewing key industry experts and leading industry participants. CIC has also conducted secondary research which involved analysing data from various publicly available data sources, such as the National Bureau of Statistics, China Internet Network Information Center and Game Publishers Association Publications Committee. Parameters used in the CIC Report include: (i) gross billings from the mobile game industry in the PRC; (ii) gross billings from co-publishing industry in the PRC; (iii) gross billings from publishing self-developed mobile games in the PRC; (iv) market share of the mobile game industry by game genre in the PRC.

## INDUSTRY OVERVIEW

### DIRECTOR'S CONFIRMATION

Our Directors confirm that, after taking reasonable care, there is no material adverse change in the market information since the date of the CIC Report which may qualify, contradict or have an impact on the information in this section.

### MOBILE GAME INDUSTRY IN THE PRC

#### Overview of the mobile game industry in the PRC

Mobile game is a category of online game that uses smartphones and other portable devices as an operating platform to access the mobile internet. The PRC was the largest online game market in the world in 2018. In the PRC, where smartphones have continued to be the most extensively used devices to gain internet access, an increasing number of online games are being developed for mobile gameplay given the optimum platform compatibility and readily available access of smartphone and other portable devices, which also make multiplayer interaction and social networking easy and convenient. As a result, the mobile game industry in the PRC has experienced significant and rapid growth, and has dominated the online game market in the PRC since 2016.

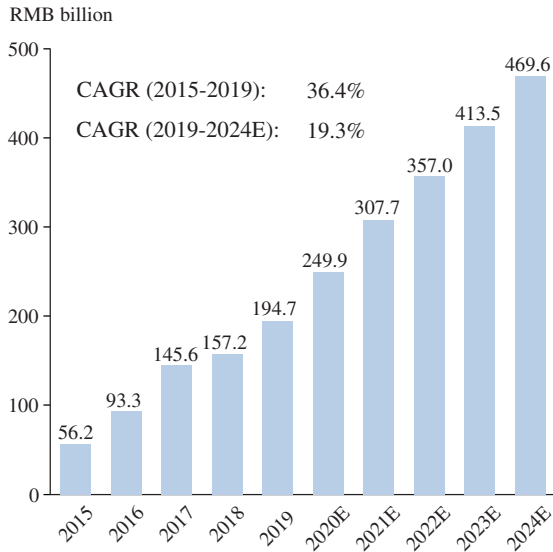
The gross billings from mobile online games grew from RMB56.2 billion in 2015 to RMB194.7 billion in 2019, with a CAGR of 36.4%. With the continuous rise in smartphone usage and major advancements in mobile internet technologies, mobile gaming, which is projected to remain as the most lucrative and the fastest-growing segment, is expected to grow at a CAGR of 19.3% from 2019 to reach RMB469.6 billion in 2024 and account for 80.3% of the overall online game industry.

Due to the recent Coronavirus Outbreak, most people had to quarantine at home, leading to significantly increase in time and money spent on mobile game. An increasing number of mobile phone users became more accustomed to paying for online entertainment contents during this period, which further gave the mobile game industry a boost.

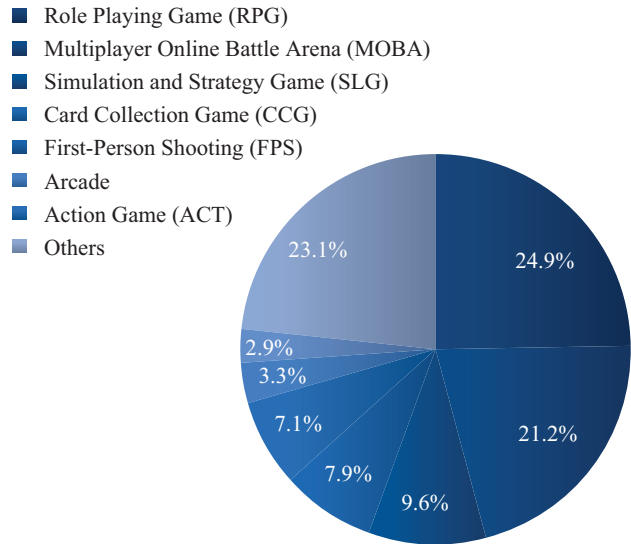
## INDUSTRY OVERVIEW

The following chart sets forth the market size of the mobile game industry in the PRC in terms of gross billings:

**Market size of the mobile game industry by gross billings, the PRC, 2015-2024E**



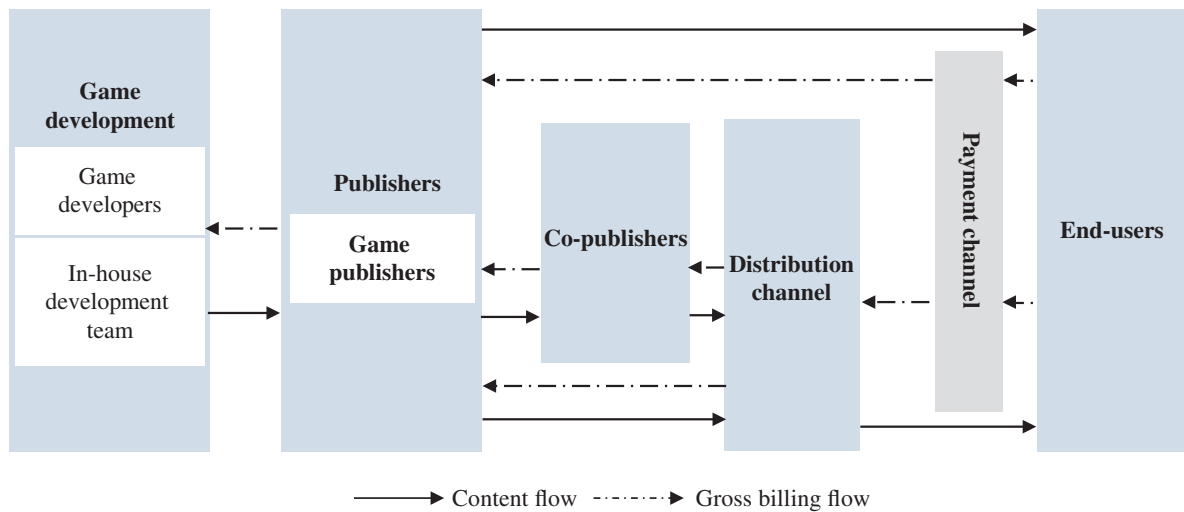
**Market share of the mobile game industry by gross billings, by genre, the PRC, 2019**



Source: CIC Report

### Value chain

The following diagram illustrates the value chain of the mobile game industry in the PRC:



Source: CIC Report

- Game developers.** Game developers are skilled agents who are primarily responsible for the research, design and coding process in game production as well as providing version updates and technical support based on feedback from users and the market. Game developers have three methods of gaining revenue: 1. Deliver game products to game

## INDUSTRY OVERVIEW

publishers and charge game publishers for a fixed licence fee; 2. Deliver game products to game publishers and received a portion of gross billing the game generated; 3. Sell the self-developed games. In real practice, the first two methods are usually combined and terms are addressed in contract.

- *Game publishers.* Game publishers are primarily responsible for marketing, promotion, distribution, and other user-related services, as well as coordinating with game developers on updates and modifications based on user or market feedback. Mobile game publishers publish mobile games either developed by their in-house development team or third-party game developers. In game publishing practice, there are usually one main publisher and multiple co-publishers depending on the capability of the main publisher and the genre of the game. Game publishers also act as and bear the responsibilities of game developers when they publish games developed by their in-house development team.
- *Co-publishers.* Co-publishers are publishers other than main publishers that are designated part of the responsibility of the main publisher. Co-publishers provide marketing, promotional, distribution and coordination services to publishers. They also help expand distribution channels and attract new users on Android system as there are multiple app store options on Android system. Publishers usually work with co-publishers due to their comprehensive coverage of channels and marketing resources, or out of cost concerns. Co-publishers also work with peers as well as downstream distribution channels on mobile game distribution.
- *Distribution channels.* Distribution channel generally refer to the iOS app store and Android app stores. Unlike the dominant status of the iOS app store, there are various app stores on Android system, either operated by mobile manufacturers, such as Xiaomi's App Store and Huawei AppGallery, or by third party open platforms, such as Tencent App Store (騰訊應用寶) and Baidu App Store (百度手機助手). Distribution channel also participate in the marketing and promotion of games distributed through their platform. They are not involved in the redesign or operation of the games. The gross billing share of iOS App Store is 30% of the total gross billing from end-users.
- *Payment channels.* Payment channels collect proceeds from purchases of mobile games and any in-game purchases of virtual items made by the game player. The payment channel can be categorised into bank-based payment channel such as UnionPay (銀聯), mobile service carrier payment channel such as CMCC and Unicom, and E-commerce payment channel such as WeChat and Alipay. The payment channels usually charge 0.5% to 5.0% of the total gross billing from end-users.

## INDUSTRY OVERVIEW

### Analysis of distribution channels of the mobile game industry in the PRC

Distribution channels	Description	Traffic source	Total traffic volume in terms of total counts of download in 2019 (Billion)	Market share in 2019 (%)
Mainstream third party App Store	Large-scale comprehensive distribution channel including Tencent Myapp, Baidu, TapTap, Bilibili, and UC	<ul style="list-style-type: none"> <li>• Own social network service users</li> <li>• Own community members</li> </ul>	23.8	22.5%
Smartphone manufacturer App Store	app store developed and pre-installed by smartphone manufacturers such as Apple Appstore, Xiaomi App Store, Hardcore Alliance, etc	<ul style="list-style-type: none"> <li>• Smartphone users of the manufacturer</li> </ul>	41.1	38.8%
Long-tail Channels	Small-scale third party app store with limit traffic volume per channel. There are hundreds of long-tail channels in the mobile game industry in the PRC	<ul style="list-style-type: none"> <li>• Users acquired by advertisements</li> <li>• Channel's own user traffic</li> </ul>	20.3	19.2%
Game publisher's own server and user traffic through advertisement	Game publisher source users through advertisement on third party websites. Users directly download from the server of game publishers	<ul style="list-style-type: none"> <li>• Users acquired by advertisement</li> </ul>	20.7	19.5%
Total			105.9	100.0%

Source: CIC Report

### Overview of the mobile game co-publishing industry in the PRC

After the official launch of a mobile game, mobile game publishers will engage mobile game co-publishers to share part of their responsibility and to assist the distribution and marketing process.

Benefits of engaging a mobile game co-publisher mainly include the following aspects:

- *Larger user base:* mobile game co-publishers usually possess established user base and stable user traffic from certain niche channels that may not be possessed by main publishers. Through mobile game co-publishers, mobile games can be delivered to more players, therefore attracting more players and then converting them into paying users.
- *Comprehensive and effective marketing services:* co-publishers can target mobile game advertisements on customers statistically and analytically through suitable channels, thus increasing the advertising accuracy, as well as the user conversion rate. They are also able to keep modifying and optimising the contents of the advertisements, such as image quality and slogans, to attract more users. Therefore, mobile game co-publishers with accumulated operating experience are capable of providing comprehensive and effective marketing and promotion solutions to mobile game publishers and achieve a more effective game distribution. It is advantageous for mobile game publishers to work with co-publishers if they want to manage their cost on marketing and advertising activities.
- *Abundant experience in user acquisition:* with their operating experience and user feedbacks accumulated, mobile game co-publishers are able to target users more accurately. After in-depth data analysis, co-publishers can more depict the user image more accurately and then deliver certain game genres to target user groups based on their preference and tastes, which is a cost-effective way of mobile game distribution and promotion, as it directly reaches the target users, leading to more players converted into paying users.
- *Risk sharing:* co-publishers sometimes make pre-payment to main publishers before the game distribution as a portion of the gross billing sharing. They may also make pre-payment to advertisers to secure premium advertisement spots. Co-publishers will bear the cash flow risk when such pre-payment is required. The engagement of co-publisher could help the main publisher to share such risks faced during the distribution process.

Co-publishing has become a commonly used model in the mobile game industry due to the lack of a predominant distribution channel on the Android system. A growing number of game publishers now choose to collaborate with a variety of mobile game co-publishers and distribution channels to reach a wider player base. As such, the market size of the mobile game co-publishing industry has continued growing rapidly, with its market size having expanded from RMB25.0 billion in 2015 to RMB94.4 billion in 2019, with a CAGR of 39.4%.

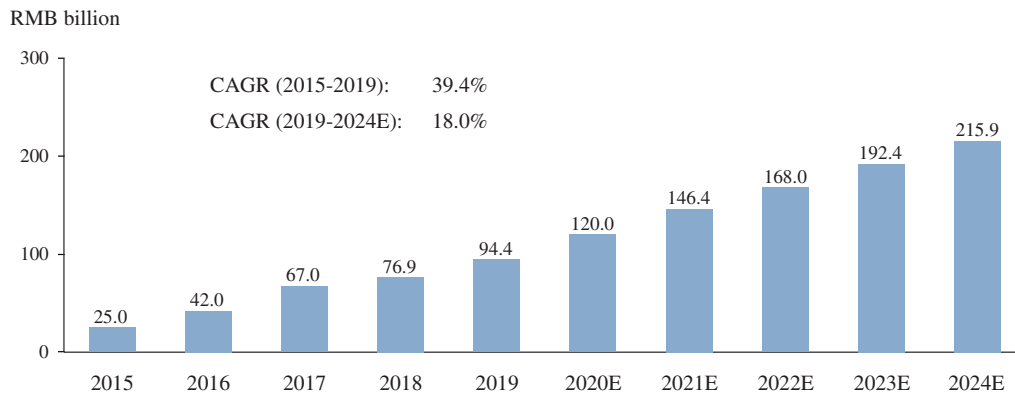
With the development of the overall mobile game industry, leading game publishers are searching for more effective and cost-efficient ways for user acquisition. Besides, for indie game developers who generally have limited access to top mobile game publishers, co-publishers help them expand their distribution channels and attract new players. In the future, mobile game co-publishers who have abundant marketing resources and a larger coverage of distribution channel will keep developing rapidly. The market size of the mobile game co-publishing industry is forecast to reach RMB215.9 billion in 2024, registering a CAGR of 18.0% between 2019 and 2024.



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The following chart sets forth the market size of the mobile game co-publishing industry by gross billings for the periods indicated:

**Gross billings from the mobile game co-publishing industry, the PRC, 2015-2024E**



Source: CIC Report

### Overview of integrated game developer

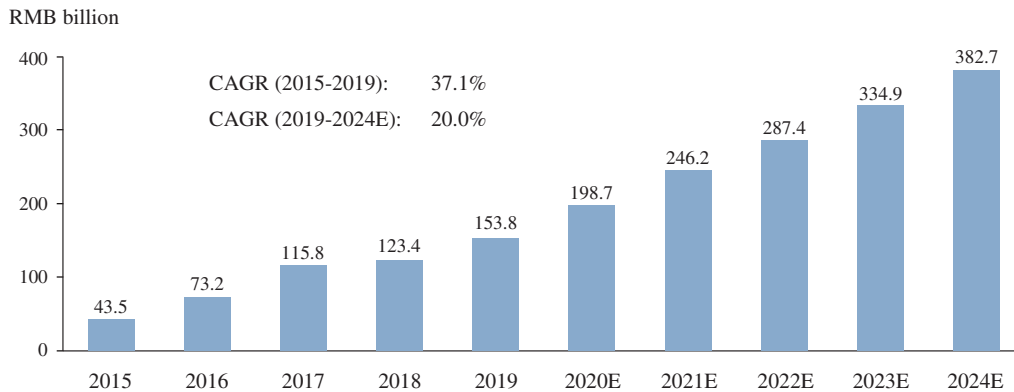
Integrated game developers are game developers that also publish games. The integration of developing and publishing roles provides game companies with more synergy, and has the following advantages:

- *Profit maximisation.* The value chain of the mobile game industry has decided that publishers are at an advantage in terms of revenue split when compared to developers. If a game developer has the capabilities of publishing its self-developed games, it could take up to 80% of the total gross billings.
- *Extended game lifecycle.* Game lifecycle refers to the period that a game is in operation in the market. A mobile game has an average lifecycle of six to 12 months, with long game lifecycle up to 24 months or beyond. An integrated game developer could test and optimize games at the same time, which would improve the game life span. On average, the game lifecycle could be extended by six months or more.
- *On-time feedbacks from players.* User feedback is normally generated by game publishers before being provided to game developers. Thus, there is a time gap between user feedback and game updates. By publishing self-developed games, game developers could respond faster to users' needs and quickly fix any deficiency.
- *Increase in the efficiency of game publishing.* Having the ability to publish games actively increases the speed in which the game is made available to market, this avoids possible default risk and eliminates communication cost between the developer and publisher. This enables developers to focus more on improving game quality. Publishing strategy, marketing events and version planning can all be handled internally. Since this practice can be monitored more easily, it is deemed more efficient than communicating with outside parties.

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Gross billings from publishing self-developed mobile games has increased exponentially over the past five years from RMB43.5 billion in 2015 to RMB153.8 billion in 2019, with a CAGR of 37.1%, and is forecasted to continue growing to RMB382.7 billion in 2024, registering a CAGR of 20.0%. The following chart sets forth the gross billings from publishing self-developed mobile games for the periods indicated:

**Gross billings from publishing self-developed mobile games, the PRC, 2015-2024E**



Source: CIC Report

As mobile phone technology develops, mobile game development industry remains robust growth and mainly driven by the following factors:

- *Improvement of smart phones performance.* As smart phone technology advances and performance improves, more game functions become feasible on mobile device. Therefore, more game developers start to develop mobile games and more high-quality mobile games start to appear on mobile devices.
- *Quality content lengthening the lifecycle and profit cycle.* Quality content ensures that games gain long-term popularity and meanwhile maintain a high user retention rate. Retained users are likely to spend more time and money in a game in order to have a better gaming experience, leading to a longer profit cycle.
- *Hardcore games starting to trend in the industry.* Hardcore games refers to games with longer lifecycle, longer daily gameplay time and more significant player engagement, such as SLG and RPG games. Such games have stronger monetization capability because hardcore game players are more willing to spend on games.
- *Increasing popularity of game live streaming and electronic sports.* With electronic sports events and game live streaming's strong social network effect, topics about such games are heating up in social media. Therefore, electronic sports game receives recognition from both game players and the public. Live streaming and electronic sports help to enlarge the potential game player base.

### Market drivers of the mobile game industry in the PRC

- (i) ***Technological readiness provided by mobile phones and advanced internet access.*** The continuous rise in the number of mobile phone and high-speed mobile network users has created a solid foundation for the rapid development of mobile gaming. Mobile users have increased significantly in the PRC. Most people own a smartphone nowadays that can support mobile online games. Advanced mobile internet access, such as 3G and 4G connections, allow for immediate exchanges of data and a more interactive gaming experience. The continued development of mobile devices and expanded access to the internet have both helped facilitate the development of the mobile game industry in the PRC.
- (ii) ***Expanded use of mobile devices and games played at shorter intervals.*** People have become increasingly willing to spend additional time on mobile devices. Gaming on mobile devices has also become a widely accepted daily activity for the millennial generation in the PRC regardless of gender. Apart from the increasing amount of time users are willing to spend online, individual users now seek consistent and more engaging experiences when choosing mobile games. The duration of time spent on each mobile application has also become increasingly more limited and has been fragmented by a wider selection of apps. In the mobile game industry, market preferences are therefore shifting towards shorter intervals of time spent on each game and a greater emphasis on the in-depth gaming experience.
- (iii) ***Well-established industry value chain.*** The mobile game industry in the PRC has developed rapidly, not only in the game development segment. The last decade also saw the fast development of other business segments such as game publishing, distribution platforms, payment channels, and other supplementary services and support. With the industry developing and the value chain becoming mature, local small-to-medium enterprises are able to be unique and to concentrate on their areas of specialty. More talented engineers and designers are attracted to the industry, driving the sustainable growth of the mobile game industry in the PRC.
- (iv) ***Economic development shifting towards the service sector.*** The PRC has experienced rapid economic growth over the past 20 years. The economy has also shifted its weight from the agricultural and industrial sectors to focus more on the service sector. In recent years, the service sector has had noticeable growth in terms of both online and gaming industries. The game industry is expected to see further growth and expansion as a major subsection of the service sector.

### Future trends of the mobile game industry in the PRC

- (i) ***Development of IP becoming more important.*** As more mobile games are developed and users become more selective, games with famous IP stand a better chance to attract game users. IP games tend to have a loyal fans group with users who are more willing to pay for IP-related items, successfully developed IP games can therefore generate sustainable revenue while enhancing the game developer's brand.
- (ii) ***Distribution channels shifting from general channels to focus more on vertical channels.*** Typical distribution channels involve distribution platforms such as the iOS app store and various app stores on Android system. To enhance exposure, visibility and user conversion, publishers have started to expand their network and partnerships to vertical channels such as social platforms and communities for gamers. By expanding their distribution channels, game publishers seek to reach a wider audience of prospective players in order to launch precise marketing strategies targeted at specific user bases. As a result, revenue is expected to increase significantly with more effective game publication.

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- (iii) ***Integrated platform log-in systems.*** Unified platform log-in systems allow users to access multiple games with a single account. This mechanism saves time and effort on log-in procedures. For publishers, this is a key step to solidify an existing user group. When users become more accustomed and loyal to a unified platform log-in system, these user's stickiness to the platform increases, leading to longer gaming time.
- (iv) ***Diversification within game genres.*** Diversified development in niche markets can be attributed to vigorous exploits in the game industry. The game industry is booming with increasing attention and efforts from both developers and end-users. As fierce competition diverts the market opportunities to leading players, publishers diversify into specialised categories and niche markets. At the same time, to attract a wider range of players, game publishers also tend to publish cross-over games by incorporating features of different game genres.

### Key success factors in the mobile game industry in the PRC

- (i) ***Recurring partnerships with reputable game developers.*** Recurring partnerships with reputable game developers helps to ensure that high-quality content is developed for each and every game. As hardcore games focus more on the long-term experience and engagement of their users, high-quality content can help ensure a higher user retention rate and a greater average willingness to pay. Therefore, recurring partnerships with reputable game developers is key to establishing good user retention rates and ensuring the long-term success of a mobile game.
- (ii) ***A wide collection of vertical resources and promotional channels.*** The success of a mobile game is largely dependent on the efficiency of user traffic conversion. Having a wide collection of vertical resources and promotional channels can help better divert user traffic to gaming platforms while attracting users to join a particular game. This is the key to player engagement and retention, which in time increases the conversion of active users to paying users as well as the average monthly gross billing per paying user for a given game.
- (iii) ***Strategic choices of games to publish.*** The choices of games and reliable game developers are critical to the development of the mobile game publishing industry in the PRC. Strategic choices of games to focus on can greatly impact the publisher's reputation, business plan and long-term growth. Choosing the best game for players is important for long-term growth. This factor is especially true for hardcore games because hardcore game players are loyal to the game and can contribute more effort, time and money than average mobile games in general.

### Entry barriers of the mobile game industry in the PRC

- (i) ***Development of a loyal user base.*** The success of mobile games depends on a loyal base of long-term users. Typically, hardcore game players exhibit a high degree of loyalty and are devoted to one game over a period of time. After a player begins to play a particular hardcore game, they are unlikely to switch over to other hardcore games during the lifetime of that particular game. Accordingly, a new market entrant may face the challenge of developing an active user base for its games.
- (ii) ***Requirement for strong user and data analytics.*** Through years of game development, testing and operation, existing game developers have established their own player behaviour data mining, collection and analytics capabilities. These advantages facilitate the creation of new games with strong potential of success, optimise their existing games on the market to strengthen player retention rates and lengthen game lifecycles, and improve their ability to monetize players.

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- (iii) **Sufficient industry know-how.** Sufficient industry know-how is another entry barrier for new entrants because established publishers understand users' preferences and demands through strong user data analytics capabilities. Established publishers are proficient in identifying potential users, converting active users into long-term paying users, and responding keenly to industry changes and user behaviour patterns.
- (iv) **High initial investment.** Hardcore games generally have a longer ramp-up period of approximately six months from the beginning of the operation compared to other game genres. A hardcore game publisher is therefore required to maintain sufficient working capital to continue investing in the game after the official launch. As game publishers are generally required to invest significantly in marketing and promotion, a new market entrant without sufficient working capital for initial game operations may not be able to launch games with success.

### Threats and challenges of the mobile game industry in the PRC

- (i) **Increasing difficulties associated with independent publishing and game operations.** Collaborations in the mobile game publishing industry have started to increase as vertical integration becomes the norm in the mobile game industry. More downstream and upstream resources have become exclusive to specific collaborating parties. Independent publishers are therefore less likely to obtain the best resources which are offered by key market players, thus putting these publishers at a potential disadvantage compared with larger publishers that are vertically integrated.
- (ii) **Rising user acquisition cost.** As the growth of the total number of mobile game players slows down and mobile games compete for existing players, mobile game players become more selective in games. Therefore, the user acquisition cost increases continuously and it is expected to compress mobile game co-publishers' profit margins.
- (iii) **Access to industry talents.** The talents are essential to mobile game industry. Creative game designers and experienced programmers are critical for the development of games as well as during the publishing process. Access to such talents would be an industry challenge due to the rising salary and scarcity of such talents.

## INDUSTRY OVERVIEW

### COMPETITIVE LANDSCAPE OF THE MOBILE GAME INDUSTRY IN THE PRC

#### Overview of the competitive landscape and rankings in the mobile game industry in the PRC

The mobile game industry in the PRC has become increasingly concentrated, with the top 15 market players collectively holding a market share of 86.7% in 2019. Our Group captured a market share of 0.1% in the mobile game industry in the PRC in 2019. The following chart sets forth the gross billings and market shares of the top 15 mobile game publishers in the PRC in 2019:

Ranking	Company	Background information	Listing venue	Gross billings from mobile games (RMB billion) in 2019	Market share in 2019
1	Company A	A large scale listed company with various internet-related services and social media based in China	HK	97.0	49.8%
2	Company B	A large scale listed company with various internet-related services based in China	US	33.3	17.1%
3	Company C	A listed game developer and publisher focusing on RPG and H5 games	Shenzhen	12.3	6.3%
4	Company D	A listed game publisher, video sharing websites and community in China	US	4.2	2.2%
5	Company E	A listed game developer and publisher focusing on IP-related mobile games RPG games	HK	3.8	2.0%
6	Company F	A listed game developer and publisher in China focusing on RPG games in China	SZ	3.3	1.7%
7	Company G	A listed game publisher in China focusing on publishing overseas games	HK	2.7	1.4%
8	Company H	A private game publisher based in China	Private	2.4	1.2%
9	Company I	A listed game developer and publisher focusing on female games in China	HK	1.9	1.0%
10	Company J	A private game publisher based in China	Private	1.9	1.0%
11	Company K	A listed game publisher in China	Shenzhen	1.3	0.7%
12	Company L	A listed game publisher in China	Shenzhen	1.2	0.6%

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Ranking	Company	Background information	Listing venue	Gross billings from mobile games (RMB billion) in 2019	Market share in 2019
13	Company M	A listed game developer and publisher in China	Shanghai	1.2	0.6%
14	Company N	A listed game developer and publisher in China	Shenzhen	1.2	0.6%
15	Company O	A listed game developer and publisher focusing on SLG games in China and globally	HK	0.9	0.5%
	Subtotal			168.6	86.7%
	Others			26.1	13.3%
	<b>Total</b>			<b>194.7</b>	<b>100.0%</b>

*Source: CIC Report*

### Overview of the competitive landscape of mobile game co-publishing industry in the PRC

Due to the lack of a dominant app store on Android system in the PRC, there are hundreds of different channels to publish mobile games and apps and the engagement of co-publisher is a common practice in the mobile game industry in the PRC to assist in the distribution and marketing process. Furthermore, as users are highly differentiated across different channels, mobile game publishers would often engage various co-publishers to assist in the distribution and marketing in certain channels in order to develop more tailored marketing strategy. In 2019, the mobile game co-publishing industry in the PRC is highly fragmented and highly competitive with over 1,000 participants, and such competitive landscape is likely to continue in the forecast period.

## REGULATORY OVERVIEW

A summary of the most significant laws, regulations and rules that affect our business activities and operation in the PRC and our Shareholder's rights to receive dividends from us is set out below.

### LAWS AND REGULATIONS GOVERNING ONLINE GAMES INDUSTRY AND BUSINESS IN CHINA

#### Regulations on online games

On 17 February 2011, the MOC promulgated the Interim Provisions on the Administration of Internet Culture (《互聯網文化管理暫行規定》) (the “**Internet Culture Provisions**”) which became effective on 1 April 2011 and amended on 15 December 2017. Since online games fall within the definition of “Internet culture products” under the Internet Culture Provisions, commercial entities engaged in online games are required to apply to the appropriate local culture authority for an “Online Culture Business Permit” (網絡文化經營許可證).

The Interim Measures for the Administration of Online Games (《網絡遊戲管理暫行辦法》) (the “**Online Games Measures**”), which were issued by the MOC on 3 June 2010, became effective on 1 August 2010, and further amended on 15 December 2017, regulate a broad range of activities related to the online games business, including the development and production of online games, the operation of online games, the issuance of virtual currencies used for online games, and virtual currency trading services. The Online Games Measures provide that any entity that is engaged in online game operations must obtain an Online Culture Business Permit, and require that the content of an imported online game to be examined and approved by the culture administrative department under the State Council prior to the launch of the game and a domestic online game must be filed for record within 30 days of its launch with the culture administrative department under the State Council. The Online Games Measures also request online game operators to protect the interests of online game players and specify certain terms that must be included in the service agreements between online game operators and the players of their online games. The culture administrative department under the State Council has formulated the Essential Terms of Model Agreements on Online Game Services (《網絡遊戲服務格式化協議必備條款》). On 29 July 2010, the Notice on the Implementation of the Interim Measures for the Administration of Online Games (《關於貫徹實施〈網絡遊戲管理暫行辦法〉的通知》) issued by the MOC, which was abolished on 19 August 2019, emphasises the need to clarify the management objects and standardise the approval of operators, strengthens the content management and the supervision of online games business activities. On 10 July 2019, the MOC issued the Decision on Abolishing Online Games Measures and Measures for Planning and Administration of Tourism Development (《文化和旅遊部關於廢止〈網絡遊戲管理暫行辦法〉和〈旅遊發展規劃管理辦法〉的決定》) pursuant to which the Online Games Measures were abolished.

According to the Circular of State Commission Office of Public Sectors Reform (“**SCOPSR**”) on the Issuance of the Interpretation by the SCOPSR of Some Provisions Concerning the Comprehensive Law Enforcement of Animation, Online Games and Cultural Market in the “Regulation on Three Provisions” of the MOC, the General Administration of Radio, Film and Television and the General Administration of Press and Publication (“**GAPP**”) (《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》) issued on 7 September 2009, the MOC was the competent department of online games and the GAPP was responsible for the pre-approval of online publishing of online games. For online games that have been pre-approved by the GAPP, the MOC should allow access to the internet without repeated censorship and strictly administer them according to the content approved by the GAPP. The MOC, not the GAPP, shall direct the law enforcement team of the cultural market to carry out investigation on and impose penalties regarding those online games that fail to obtain pre-approval from the GAPP.



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According to the GAPP Notice issued on September 28, 2009, without the pre-approval of the GAPP and the Internet publishing licence with the scope of online games business, no institution or individual may engage in online game operation services. The Notice explicitly prohibits foreign investment in online games, either in the form of a wholly foreign-owned enterprise, sino-foreign joint venture or sino-foreign joint cooperation enterprise, or via indirectly controlling or participating in the online game services operated by domestic companies, including: (i) establishing other joint ventures, signing certain agreements or providing technical support; or (ii) import user registration, account management and consumption of virtual currency into the online game networks or platforms over which they have actual control or ownership.

On 11 October 2018, the General Office of the State Council promulgated the Implementation Scheme of Consumption Mechanism, which calls for developing digital cultural content such as digital video and audio, animation and games and online literature, promoting transformation and upgrading of online games, as well as standardising and regulating development, publishing and operation of online games.

On 14 May 2019, the General Office of the MOC issued the Circular on Adjusting the Scope of Examination and Approval of Online Culture Business Permit and Further Regulating the Work Concerning Examination and Approval (《關於調整〈網絡文化經營許可證〉審批範圍進一步規範審批工作的通知》), the local counterparts of the MOC shall no longer approve or issue online culture business permits that involve business scope such as online game operation via information networks (with or without distribution of virtual currency of online games) and virtual currency of online games trading operation via information networks. For those online culture business permits already issued which contain the foregoing business scope only, they shall remain effective until expiration of its term of validity, and for operators the business scope of which contain other operational internet culture activities or which intend to engage in other operational internet culture activities, they may apply for change of business scope or issuance of a new permit. As at the Latest Practicable Date, our PRC Operating Entities do not require the online culture business permit for their online game operation businesses, and the online culture business permits held by them which have not expired shall remain effective until the expiration date of each permit according to the circular.

### **Regulations on internet publication**

On 4 February 2016, Ministry of Industry and Information Technology (“MIIT”) and State General Administration of Press, Publication, Radio, Film and Television (“SAPPRFT”) jointly issued the Administrative Provisions on Online Publishing Services (《網絡出版服務管理規定》) (“**Online Publishing Provisions**”), which took effect on 10 March 2016. Online Publishing Provisions regulate a broad range of activities related to the “online publishing services” providing “online publications”, including online games, to the public through information networks. According to the Provisions, the SAPPRFT, as the competent department of the online publishing services industry, is responsible for the prior approval, supervision and administration of the online publishing services nationwide. To engage in online publishing services, an entity or individual must be approved by competent publication administrative department in accordance with the law and acquire an Online Publishing Service Licence (《網絡出版服務許可證》). Before publishing an online game, an online publishing service provider shall file an application to the competent publication administrative departments of corresponding province, autonomous region or municipality, and upon examination and approval, the application will be submitted to the publication administrative department under the State Council for approval. As such, the application for publication of our game is subject to a two-stage examination from the publication administrative department. Should the publication administrative department reject the publication application of our game at any of the two stages, we will not be able to launch that game in the PRC. Please see “Risk Factors — Risks relating to our business and industry — If we fail to obtain pre-approval

## REGULATORY OVERVIEW

for publication of online games from NPPA before the launch of our games in a timely manner, we will not be able to launch new games as scheduled” in this prospectus.

On 24 May 2016, the SAPPRFT issued the Circular on the Administration over Mobile Game Publishing Services (《關於移動遊戲出版服務管理的通知》), which became effective on 1 July 2016. The Circular provides that game publishing service entities shall be responsible for examining the contents of their games, applying for publication and the game publication number. Game publishing service entities shall fill out the Application Form for the Publication of Domestically-Developed Mobile Games (《出版國產移動遊戲作品申請表》) after examination of the contents and submit such form and other relevant materials to the competent publication administrative departments at the provincial level at least 20 working days prior to the expected date of publication online. Before the publication and operation of mobile games online, game publishing service entities shall be responsible for the completeness of the contents of mobile games, and must set up a specific page after the display of Health Game Advice and before the start of games to display the information approved by the SAPPRFT, including the copyright owner of the game, the publishing service entity, the approval number, the publication number and others, and shall publish and operate such games strictly according to what has been approved. Upgrading works and new expansions (the plots, tasks, map types, personalities of characters, characteristics of roles, and interactions of a game change obviously; and the promotion campaign is based on the supplemented name, i.e. a subtitle is added up on the premise that the original name of such game remains the same; or a modifier is added up to the original name of such game, such as New Version of XXX; or a number is added up to the name of such game to indicate a different version, such as XXX II) of a mobile game that has been approved for its publication shall be deemed as new works, and the relevant entities shall go through relevant approval formalities again depending on the categories to which the works belong under the Circular. If our game undergoes the foregoing updates or expansion, we will have to submit a new application to the relevant publication administrative department for approval of publication.

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 adopted the Institutional Reform Plan of the State Council (國務院機構改革方案) (collectively, the “**Institutional Reform Plans**”). According to the Institutional Reform Plans, (i) the SAPPRFT was reformed and now known as the NRTA, which is a division of the State Council and the NPPA (NCA) (國家新聞出版署(國家版權局)) is now a division of the Propaganda Department of the Central Committee of the CPC (中共中央宣傳部), and (ii) the MOC was reformed and now known as the Ministry of Culture and Tourism (文化和旅遊部).

The PRC governmental authorities temporarily suspended the approval of game publication numbers in March 2018 and subsequently the MOC closed the post-filing recording online system for domestic online games. Since December 2018 and up to the Latest Practicable Date, NPPA has approved and published new game publication numbers periodically. No governmental authorities, including the NPPA, have issued or promulgated any official policy, regulation or statement in respect of (a) any suspension of pre-approval from the NPPA regarding to online games publishing and operation, and (b) any proposed, revised or new administrative or regulatory approval procedure involving pre-approval for the publishing and operation of online games. In July 2019, the MOC abolished the Online Games Measures which set out the registration procedures with the post-filing recording online system.

Since our two self-developed games, namely Hollow Storm\* (虛空風暴) and Princess in Distress\* (公主遇險記), already obtained the approval from the PRC governmental authorities and were put into operation prior to the above-mentioned suspension of approval of game publication numbers and close of post-filing recording online system in 2018, the launch and promotion of such games were not affected by the suspension. Despite the NPPA has resumed approval and publication of new game publication

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numbers since December 2018 and the Implementation Scheme of Consumption Mechanism encourages and promotes the development of digital cultural content including games and upgrading of online games, the processing time for obtaining pre-approval for publishing from NPPA has increased after the resumption of the approval process. We may adjust the launch date of our self-developed games and our third party games portfolio, therefore our Directors are of the view that such strategic move has reduced the impact of the increase in processing time for obtaining publication numbers thereby minimize the negative impact on the overall financial condition or business operation of our Group.

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

### Regulatory authorities

The SAPPRFT and MOC were the main industry administrative authorities of online game operators. While the SAPPRFT was responsible for the pre-approval of online publication of online games, the MOC was responsible for the subsequent administration of online games after online games are uploaded on the Internet.

According to the Institutional Reform Plans, NPPA (NCA) (國家新聞出版署(國家版權局)), a division of the Propaganda Department of the Central Committee of the CPC (中共中央宣傳部), inherited from the SAPPRFT the administration authority of the press and publication and has been responsible for the pre-approval of online publication of online games and issuance of game publication numbers since March 2018.

Pursuant to the Circular on Adjusting the Scope of Examination and Approval of Online Culture Business Permit and Further Regulating the Work Concerning Examination and Approval, which quoted the Regulations on the Function Configuration, Internal Institutions and Staffing of the MOC (《文化和旅遊部職能配置、內設機構和人員編制規定》), the MOC shall no longer assume the responsibility for administration and supervision of the industry of online games, and the local counterparts of the MOC shall not issue online culture business permits for online games any longer. On 10 July 2019, the MOC abolished the Online Games Measures by its decision, which means the MOC had removed all its approval and registration procedures and measures in relation to online games. As at the Latest Practicable Date, no laws, regulations or official policy have been promulgated regarding whether the responsibility of the MOC for supervising online games will be undertaken by another governmental agency.

Given that the MOC is no longer responsible for administration and supervision of the industry of online games, as at the Latest Practicable Date, our Group began to launch our self-developed or third party games online and carry out subsequent operation after the pre-approval and issuance of game publication numbers by the NPPA.

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In accordance with the Online Publishing Provisions and official online guidelines relating to pre-approval by the NPPA for publication of online games, in order to apply for publication of an domestically-developed online game, an application and accompanying application materials shall be submitted to the publication administrative department at the level of the province, autonomous region or municipality. Upon approval by the publication administrative department of the province, autonomous region or municipality, the application will be further submitted to the NPPA for final approval, together with views of local publication administrative department and relevant application materials. If the NPPA makes a decision to approve the application, the online game will be allowed to be published online and a game publication number will be issued. Otherwise, the online game will not be permitted to be published and put into operation.

### **Regulations on operating order of online games and virtual currency**

On 25 January 2007, the Ministry of Public Security, the MOC, the Ministry of Information Industry (“**MII**”) and the GAPP jointly issued the Notice on Regulating Operation Order of Online Games and Inspection and Prohibition of Gambling via Online Games (《公安部、信息產業部、文化部、新聞出版總署關於規範網絡遊戲經營秩序查禁利用網絡遊戲賭博的通知》). To curtail online games that involve online gambling, the notice (i) prohibits online game operators from charging commissions in the form of virtual currency in connection with winning or losing games, (ii) requires online game operators to impose limits on use of virtual currency in guessing and betting games, (iii) bans the conversion of virtual currency into real currency or property, and (iv) prohibits services that enable game players to transfer virtual currency to other players.

On 15 February 2007, the MOC and other 13 departments jointly issued the Notice on the Reinforcement of the Administration of Internet Bar and Online Games (《關於進一步加強網吧及網絡遊戲管理工作的通知》). In order to strengthen the administration of virtual currency in online games and to avoid any adverse impact on the PRC economy and financial system, strict limits are placed on the total amount of virtual currency issued by online game operators and the amount purchased by individual players and a clear division is required between virtual transactions and real transactions carried out by way of electronic commerce. The Notice further provides that virtual currency should only be used to purchase virtual items and prohibits any resale of virtual currency.

The Notice of the MOC and the Ministry of Commerce (“**MOFCOM**”) on Strengthening the Administration of Online Game Virtual Currency (《文化部、商務部關於加強網絡遊戲虛擬貨幣管理工作的通知》) issued on 4 June 2009, defines the meaning of term “virtual currency” in online games and places a set of restrictions on the trading and issuance of virtual currency. The Notice also states that online game operators are 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.

### **Regulations on the protection of the minors in online games**

According to the Circular on the Issuance of the Implementation Plan for Comprehensive Prevention and Control of Myopia in Children and Adolescents (《教育部等八部門關於印發〈綜合防控兒童青少年近視實施方案〉的通知》) jointly issued by the Ministry of Education and other seven departments on 30 August 2018, National Press and Publication Administration will implement the regulation of the total amount of online games, control the number of new online games, explore the age-appropriate prompting system in line with the national conditions, and take measures to limit the time of minors to play online games.

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On 15 April 2007, in order to curb addictive online game-playing by minors, eight PRC Government authorities jointly issued the Circular on Application of the Online Game Addiction Prevention System for Protecting the Physical and Mental Health of the 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》), requiring the implementation of an anti-fatigue compliance system and a real-name registration system by all PRC online game operators. Under the anti-fatigue 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”. Limits shall be set on the game value receivable according to the time of staying online. After the healthy online time, the longer the minors stay online the less proceeds are receivable until the proceeds become zero.

On 25 October 2019, the NPPA issued the Notice on Preventing Minors from Indulging in Online Games (《國家新聞出版署關於防止未成年人沉迷網絡遊戲的通知》) (the “**Notice**”) which became effective on 1 November 2019. The notice set out several requirements on online game operation. The principal requirements include the following: (i) online game enterprises shall establish and implement a user real name registration system, and shall not provide game services in any form for new users without real name registration. Online game enterprises 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 enterprises shall not repeatedly provide visitor experience mode service to users using the same device within 15 days; (ii) online game enterprises shall place restrictions on the game time and duration for playing online games by minors. Game services shall not be provided for 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) online game enterprises shall not provide paid services to minor users under 8 years old. For minor users between 8 and 16 years old, 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 requirements above shall be satisfied prior to the launching, publishing and operation of online games by online game enterprises; and (v) online game enterprises 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.

## LAWS AND REGULATIONS GOVERNING VALUE-ADDED TELECOMMUNICATION SERVICES AND INTERNET SECURITY

### Regulations on value-added telecommunication services

Telecommunications Regulations of the People’s Republic of China (《中華人民共和國電信條例》) (“**Telecom Regulations**”), promulgated by the State Council on 25 September 2000 and subsequently amended on 29 July 2014 and 6 February 2016, sets out the general framework for the provision of telecommunications services by domestic PRC companies. Telecom operators shall apply to the information technology administration department of the State Council or the telecommunications administration authorities of the province, autonomous region or centrally-administered municipality for a telecommunications business permit pursuant to the Telecom Regulations. No organisation or individual shall engage in telecommunications business without obtaining a telecommunications business permit. Under the Telecom Regulations, telecommunications businesses are categorised into basic telecommunications businesses and value-added telecommunications businesses. Operators of value-added telecommunications services must obtain a Value-added Telecommunications Business Permit (《增值電信業務經營許可證》) approved by the telecommunications administration authorities. On December 28, 2015, The Catalogue of Telecommunications Businesses (version 2015) (《電信業務分類目錄(2015年版)》) was issued by the MIIT, amended on 6 June 2019, according to the catalog, internet information services, which include information release and delivery services, information real-time interactive services, and information protection and processing services, continue to be classified as a category of value-added telecommunication services.

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The MIIT promulgated the Administrative Measures on Telecommunications Business Operating Licences (《電信業務經營許可管理辦法》) on 5 March 2009 and further amended on 3 July 2017 and became effective on 1 September 2017, which set forth more specific provisions regarding the types of licences required to operate value-added telecommunications services, the qualifications and procedures for obtaining such licences and the administration and supervision of such licences. Telecommunications business operators shall, in the courses of operating telecommunications business, comply with the provisions on business permits, accept and cooperate in supervision and administration of telecommunications administrative authorities.

The Administrative Measures on Internet Information Services (《互聯網信息服務管理辦法》) were promulgated by State Council on 25 September 2000 and later amended and became effective on 8 January 2011. The Measures classified internet information services into commercial and non-commercial services. The State subjects commercial internet information services to a permit system and non-commercial internet information services to a record-filing system. No one may engage in the provision of internet information services without having obtained permission or carried out record-filing procedures. A commercial internet information services operator must obtain a Value-added Telecommunications Licence (or the “ICP Licence”). Internet information service providers shall provide services in accordance with those items for which they have obtained permission or which they have placed on the record. They may not provide services outside the scope of those items for which they have obtained permission or which they have placed on the record.

In addition to the telecommunications regulations above, mobile internet applications are especially regulated by the Administrative Provisions on Mobile Internet Applications Information Services (《移動互聯網應用程序信息服務管理規定》) which were promulgated by the Cyberspace Administration of China on June 28, 2016 and became effective on 1 August 2016. According to the Provisions, the Cyberspace Administration of China and its local offices shall be responsible for the supervision, administration and law enforcement with regard to the nationwide and local mobile Internet applications information contents. Relevant qualifications required by laws and regulations shall be acquired according to law for providing information services through the mobile Internet applications.

### **Regulations on internet security**

On 28 December 2000, the Decision on Maintenance of Internet Security (《全國人民代表大會常務委員會關於維護互聯網安全的決定》) was issued by Standing Committee of the National People’s Congress (“SCNPC”) and further amended and became effective on 27 August 2009. The Decision sets out acts that, when constituting a crime, will be subject to criminal prosecution. Such acts include, among others, deliberate production or transmission of computer viruses, damage to others’ business reputation or the reputation of their products or infringement upon others’ intellectual property rights via the internet, and intercepting and capturing, tampering with or deleting others’ e-mail or other data.

Cyber Security Law of the People’s Republic of China (《中華人民共和國網絡安全法》) which was promulgated by SCNPC on 7 November 2016 and became effective on 1 June 2017. For the construction and operation of a network or the provision of services through a network, it is a requirement to, in accordance with the provisions of laws and administrative regulations and the mandatory requirements of national standards, take technical measures and other necessary measures to ensure the secure and stable operation of the network, effectively respond to cyber security incidents, prevent illegal crimes committed on the network, and maintain the integrity, confidentiality and availability of cyber data. The national cyberspace administration authority is responsible for the overall planning and coordination of cyber security work and relevant supervision and administration work.

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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》) were issued by Ministry of Public Security on 13 December 2005 and became effective on 1 March 2006. The Provisions require that the providers of the internet services and entity users of the network shall adopt technical measures for the protection of the internet security according to law and shall not take technical measures to injure the users' freedom and confidentiality of communication under the pretext of protecting the security of the internet.

On 8 January 2011, the State Council revised the Administrative Measures for the Protection of International Networking Security of Computer Information Networks (《計算機信息網絡國際聯網安全保護管理辦法》) issued by the Ministry of Public Security on 16 December 1997. According to the Measures, the computer administration supervisory department of the Ministry of Public Security is responsible for the security protection administration of international networking of computer information networks. Entities or individuals shall not jeopardise national security, divulge state secrets, infringe national, social or collective interests or citizens' lawful rights and interests, or commit illegal or criminal acts by taking advantage of international networking.

The Several Provisions on Regulating the Market Order of Internet Information Services (《規範互聯網信息服務市場秩序若干規定》), issued by the MIIT on 29 December 2011 and became effective on 15 March 2012, provide that an internet information service provider may not collect any user personal information or provide any such information to third parties without the consent of a user. An internet information service provider must expressly inform the users of the method, content and purpose of the collection and processing of such user personal information and may only collect such information necessary for the provision of its information.

On 28 December 2012, Decision of the SCNPC on Strengthening Network Information Protection (《全國人民代表大會常務委員會關於加強網絡信息保護的決定》) was issued and took effect to enhance the legal protection of information security and privacy on the internet. Provisions on Protecting the Personal Information of Telecommunications and Internet Users (《電信和互聯網用戶個人信息保護規定》), issued by the MIIT on 16 July 2013 and took effect on 1 September 2013, regulate that telecommunications business operators and internet information service providers shall be responsible for the security of the personal information of users collected and used in the course of providing services, and shall formulate rules on the collection and use of the personal information of users, and publish the same at their business or service premises or websites. Without the consent of users, no telecommunications business operators and internet information service providers are allowed to collect and use the personal information of users. On 8 May 2017, Interpretations of the Supreme People's Court and the Supreme People's Procuratorate on Several Issues concerning the Application of Law in the Handling of Criminal Cases Involving Infringement of Citizens' Personal Information (《最高人民法院、最高人民檢察院關於辦理侵犯公民個人信息刑事案件適用法律若干問題的解釋》) were issued and became effective on 1 June 2017, provide more practical conviction and sentencing criteria for the infringement of citizens' personal information.

Pursuant to the Measures for Cybersecurity Review (《網絡安全審查辦法》) jointly issued by the Cyberspace Administration of China and eleven other departments on 13 April 2020 and became effective on 1 June 2020, when purchasing network products or services, an operator of critical information infrastructures shall anticipate what potential state security risks may arise after the launch and use of such products or services. If state security is affected or may be affected, the operator shall notify the cybersecurity review office of the purchase to conduct cybersecurity reviews. Under the measures, the operator of critical information infrastructures refers to the operator identified by the department for the protection of critical information infrastructures.

### LAWS AND REGULATIONS GOVERNING FOREIGN INVESTMENTS IN CHINA

#### Regulation on foreign investment policies and foreign-invested enterprises

On 30 June 2019, the NDRC and the MOFCOM jointly promulgated the Special Administrative Measures for Access of Foreign Investments (Negative List) (2019) version (《外商投資准入特別管理措施(負面清單)(2019)版》) (the “**Negative List**”), which came into effect on 30, July 2019. According to the Negative List, foreign investors shall not invest in any of the prohibited sectors specified in the Negative List; they must obtain the permit for access of foreign investments if they intend to invest in other sectors set out in the Negative list that are not prohibited; if they intend to invest in sectors subject to limits on the proportion of foreign investment, they are not allowed to establish foreign-invested partnerships. Pursuant to the Negative List, the proportion of foreign investment in a value-added telecommunications business (excluding e-commerce business, domestic multi-party communications services, store and forward services and call center services) shall not exceed 50%; investment in internet culture operation (excluding music) is prohibited.

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

The incorporation and operation of companies in China is governed by the Company Law of the People’s Republic of China (《中華人民共和國公司法》) (the “**Company Law**”), which was promulgated by the SCNPC on 29 December 1993, and became effective on 1 July 1994. It was subsequently amended on 25 December 1999, 28 August 2004, 27 October 2005, 28 December 2013, and 26 October 2018. The Company Law provides for two general types of companies, namely limited liability companies and joint stock limited companies. Both types of companies have the status of legal persons, and the liability of a company to its debtors is limited to the value of its assets. A shareholder’s liability is limited to the amount of registered capital subscribed by such shareholder. The Company Law shall also apply to foreign-invested companies.

Under the Wholly Foreign Owned Enterprise Law of the People’s Republic of China (《中華人民共和國外資企業法》) as amended on 31 October 2000 and 3 September 2016 and the Detailed Implementing Rules for the Wholly Foreign Owned Enterprise Law of the People’s Republic of China (《中華人民共和國外資企業法實施細則》) as amended on 19 February 2014, establishing a wholly foreign owned enterprise (the “**WFOE**”) which is not subject to the implementation of special administrative measures for access stipulated by the State, shall be subject to record-filing management. On 8 October 2016, MOFCOM published the Interim Measures for the Administration of Establishment and Change Filings of Foreign-Invested Enterprises (《外商投資企業設立及變更備案管理暫行辦法》) (the “**Filings Measures**”), which was last amended on 29 June 2018 and became effective on 30 June 2018. Pursuant to the Filings Measures, if the establishment or change of foreign-invested enterprises does not involve special access administrative measures prescribed by the Chinese government, namely the Negative List, the examination and approval process is now being replaced by the record-filing administration process.

According to the Filings Measures, where the establishment of a foreign-invested enterprise do not fall within the Negative List, the establishment filing information for foreign-invested enterprise shall be submitted together online when such enterprise undergoes establishment registration at the administrative department for industry and commerce and the market regulatory department. Where a non-foreign-invested enterprise is converted into a foreign-invested enterprise due to acquisition, merger



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or any other means, which falls within the record-filing scope prescribed in the Filings Measures, the establishment filing information for foreign-invested enterprise shall be submitted together online when such enterprise undergoes modification registration at the administrative department for industry and commerce and the market regulatory department. Foreign-invested enterprises which fall within the record-filing scope of the Filings Measures shall file the relevant documents online via the comprehensive administrative system within 30 days upon the occurrence of a change in the basic information of foreign-invested enterprises or their investors, a change in the basic information about the merger and acquisition transaction of the established foreign-invested enterprises, a change in equity (shares) or cooperation interest, merger, division or dissolution, mortgage or transfer of foreign-invested enterprises' property or rights and interests to external parties as well as other changes prescribed by the Filings Measures.

The Foreign Investment Law of the PRC (《中華人民共和國外商投資法》) (the “**Foreign Investment Law**”) was adopted by the National People’s Congress of the PRC on 15 March 2019, which came into force as at 1 January 2020 and replaced the Wholly Foreign Owned Enterprise Law of the People’s Republic of China. Under the Foreign Investment Law, the State shall implement the management systems of pre-establishment national treatment and negative list for foreign investment, according to which the treatment given to foreign investors and their investments during the investment access stage shall be not lower than that given to their domestic counterparts, and the State shall give national treatment to foreign investment beyond the negative list where special administrative measures for the access of foreign investment in specific fields is specified. Besides, the State shall protect foreign investors’ investment, earnings and other legitimate rights and interests within the territory of China in accordance with the law. The state will take measures to prompt foreign investment such as ensuring fair competition for foreign-invested enterprises to participate in government procurement activities, and protection of intellectual property rights of foreign investors and foreign-invested enterprises. In respect of administration of foreign investment, foreign investment shall go through relevant verification and record-filing formalities if required by relevant state laws and regulations. The organisation form, institutional framework and standard of conduct of a foreign-funded enterprise shall be subject to the provisions of the Company Law or the Partnership Enterprise Law of the PRC, if applicable.

The Regulations on Implementing 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 of Foreign Investment Law**”) were issued by the State Council on 26 December 2019, which came into effect on 1 January 2020 and replaced the Detailed Implementing Rules for the Wholly Foreign Owned Enterprise Law of the People’s Republic of China. The Implementing Regulations of Foreign Investment Law provide for detailed rules on relevant foreign investment issues. Investments made in Mainland China by investors from the Hong Kong Special Administrative Region and the Macao Special Administrative Region, and by Chinese citizens residing abroad shall be governed by the Foreign Investment Law of the PRC and the Implementing Regulations of Foreign Investment Law, unless otherwise provided by laws, administrative regulations or the State Council.

The Measures for the Reporting of Foreign Investment Information (《外商投資信息報告辦法》) were issued by the MOFCOM and the State Administration for Market Regulation on 30 December 2019, which came into effect on 1 January 2020 and replaced the Filings Measures. Since 1 January 2020, for foreign investors carrying out investment activities directly or indirectly in China, the foreign investors or foreign-invested enterprises shall submit investment information to the commerce authorities pursuant to these measures.

### **Regulations on foreign-invested telecommunications**

Administrative Provisions on Foreign-Invested Telecommunications Enterprises (《外商投資電信企業管理規定》), which was promulgated by the State Council on 11 December 2001 and last amended on

## REGULATORY OVERVIEW

6 February 2016. Pursuant to the Provisions, a foreign-invested telecommunications enterprise refers to an enterprise lawfully established by Chinese and foreign investors within the territory of the PRC by way of a Chinese-foreign equity joint venture to engage in telecommunications services. The proportion of capital contributed by the foreign investor(s) in a foreign-invested telecommunications enterprise that is engaged in value-added telecommunications services (including radio paging business as part of its basic telecommunications services) shall not ultimately exceed 50%. The major foreign investor in a foreign-invested telecommunications enterprise that is engaged in value-added telecommunications business shall have a record of good performance and operating experience in managing value-added telecommunications business.

On 13 July 2006, the MII released the Circular on Strengthening the Administration of Foreign Investment in Value-Added Telecommunications Services (《信息產業部關於加強外商投資經營增值電信業務管理的通知》), pursuant to which, a foreign investor who invests in the telecommunications services within the territory of China shall, in strict accordance with the Provisions, apply for establishing a foreign-invested telecommunications enterprise and a corresponding licence for telecommunications operation. A foreign investor who fails to go through the said procedures subject to relevant laws may not make any investment in the telecommunications business within the territory of China. A telecommunications enterprise within the territory of China may not lease, shift or sell any licence for telecommunications business in any form, or provide resources, places and facilities or any other condition for any foreign investor to engage in any illegal telecommunications operation by any means within the territory of China.

### Regulations on merger and acquisition

On 8 August 2006, six Chinese governmental and regulatory agencies, including MOFCOM and CSRC, promulgated the Rules on Acquisition of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》) (the “**M&A Rules**”), a regulation with respect to the mergers and acquisitions of domestic enterprises by foreign investors, which became effective on 8 September 2006 and revised on 22 June 2009. Foreign investors should comply with the M&A Rules when they purchase equity interests of a domestic company or subscribe the increased capital of a domestic company, which changes the nature of a domestic company into a foreign-invested enterprise; or when the foreign investors establish a foreign-invested enterprise in China, purchase the asset of a domestic company and operate the asset; or when the foreign investors purchase the asset of a domestic company, establish a foreign-invested enterprise by injecting such assets, and operate the assets.

## LAWS AND REGULATIONS GOVERNING FOREIGN EXCHANGE AND DIVIDEND DISTRIBUTION

### Regulations on foreign exchange

The Foreign Exchange Administration Rules of the People’s Republic of China (《中華人民共和國外匯管理條例》), promulgated on 29 January 1996 and last amended on 5 August 2008 by State Council, and Administrative Regulations on Settlements, Sales and Payments in Foreign Exchange (《結匯、售匯及付匯管理規定》) promulgated on 20 June 1996 by People’s Bank of China, apply and provide regulatory provisions to the foreign exchange transactions for foreign-invested enterprises. Foreign-invested enterprises are permitted to convert after-tax dividends into foreign exchange and to remit such foreign exchange from their bank accounts in PRC.

Pursuant to the Circular of the SAFE on Further Improving and Adjusting Foreign Exchange Administration Policies for Direct Investment (《國家外匯管理局關於進一步改進和調整直接投資外匯管理政策的通知》) (the “**SAFE Circular No. 59**”) promulgated by SAFE on 19 November 2012, that

## REGULATORY OVERVIEW

became effective on 17 December 2012 and was further amended on 4 May 2015, 10 October 2018 and 30 December 2019, the approval for opening of the up-front fee foreign exchange account, foreign exchange capital account, asset realisation account, and margin account has been cancelled. The banks shall handle the account opening formalities for relevant account-opening subjects based on the information registered in the relevant operation system of the administration of foreign exchange. SAFE Circular No. 59 also simplified the capital verification and confirmation formalities for foreign invested entities, the foreign capital and foreign exchange registration formalities required for the foreign investors to acquire equities from Chinese party, and further improved the administration on exchange settlement of foreign exchange capital of foreign invested entities.

The Circular of SAFE on Reforming the Administration Measures on Conversion of Foreign Exchange Registered Capital of Foreign-Invested Enterprises (《國家外匯管理局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 “**SAFE Circular No. 19**”) was promulgated on 30 March 2015 and became effective on 1 June 2015, which was amended on 30 December 2019. According to the SAFE Circular No. 19, a foreign-invested enterprise may, in response to its actual business needs, settle with a bank the portion of the foreign exchange capital in its capital account for which the relevant foreign exchange bureau has confirmed monetary contribution rights and interests (or for which the bank has registered the account-crediting of monetary contribution). For the time being, foreign-invested enterprises are allowed to settle 100% of their foreign exchange capitals on a discretionary basis; a foreign-invested enterprise shall truthfully use its capital for its own operational purposes within the scope of business; where an ordinary foreign-invested enterprise makes domestic equity investment with the amount of foreign exchanges settled, the invested enterprise shall first go through domestic re-investment registration and open a corresponding Account for Foreign Exchange Settlement Pending Payment with the foreign exchange bureau (bank) at the place of registration.

On 26 January 2017, SAFE promulgated the Circular on Further Advancing the Reform of Foreign Exchange Administration and Improving Examination of Authenticity and Compliance (《國家外匯管理局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 “**SAFE Circular No. 3**”) which took effect on the same date. Under SAFE Circular No.3, where a bank remits profits of a domestic institution equivalent to more than US\$50,000 (exclusive), it shall, based on the principle of real transaction, review the profit distribution resolution of the board of directors (or profit distribution resolution of partners) relating to such profit remittance, the original of tax record form, and audited financial statements, and shall seal on the original of the tax record form indicating the amount and date of such remittance thereon.

On 4 July 2014, SAFE promulgated the Circular on Relevant Issues Relating to Domestic Residents’ Investment and Financing and Round-Trip Investment through Special Purpose Vehicles (《國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) (the “**SAFE Circular No. 37**”), effective as at 4 July 2014. Under SAFE Circular No. 37, (1) a resident in China must register with the local SAFE branch before he or she contributes assets or equity interests in an overseas special purpose vehicle (the “**overseas SPV**”), that is directly established or indirectly controlled by the Chinese resident for the purpose of conducting investment or financing; and (2) following the initial registration, the Chinese resident is also required to register with the local SAFE branch for any major change, in respect of the overseas SPV, including, amongst other things, a change in the overseas SPV’s resident shareholder in mainland China, name of the overseas SPV, term of operation, or any increase or reduction of the contributions by the Chinese resident, share transfer or swap, and merger or division. Additionally, pursuant to the Notice of the State Administration of Foreign Exchange on Further Simplifying and Improving the Direct Investment related Foreign Exchange Administration Policies (《國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知》) (the “**SAFE Notice No. 13**”), which was promulgated on 13 February 2015 and became effective on 1 June 2015, the aforesaid registration shall be directly reviewed and handled by qualified banks in accordance with SAFE Notice No. 13, and SAFE and its branches shall perform indirect regulation over the foreign exchange registration via qualified banks.

## REGULATORY OVERVIEW

On 23 October 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 No. 28**”). Pursuant to the Circular No. 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 on dividend distribution

The Company Law, the Foreign Investment Law and the Implementing Regulations of Foreign Investment Law regulate the distribution of dividends by foreign invested enterprises. Under the laws and regulations above, 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. Wholly foreign owned enterprises are required to set aside as statutory common reserves 10% of its after-tax profit, until the cumulative amount of such reserves have reached 50% of its registered capital. These reserves are not distributable as cash dividends.

## LAWS AND REGULATIONS GOVERNING INTELLECTUAL PROPERTY RIGHTS

### Regulations on copyright

China has enacted various laws and regulations relating to the protection of copyright. China is a signatory to some major international conventions on protection of copyright and became a member of the Berne Convention for the Protection of Literary and Artistic Works in October 1992, the Universal Copyright Convention in October 1992, and the Agreement on Trade-Related Aspects of Intellectual Property Rights upon its accession to the World Trade Organization in December 2001.

The Copyright Law of the People’s Republic of China (Revised in 2010) (《中華人民共和國著作權法(2010年修訂)》) (the “**Copyright Law**”) promulgated by the SCNPC on 26 February 2010 and became effective on 1 April 2010, provides that Chinese citizens, legal persons, or other organisations shall, whether published or not, enjoy copyright in their works, which include, among others, works of literature, art, natural science, social science, engineering technology and computer software.

The State Council promulgated the Regulations for the Protection of Computer Software (《計算機軟件保護條例》) on 4 June 1991 which was subsequently amended on 20 December 2001, 8 January 2011 and 30 January 2013. The current Regulations for the Protection of Computer Software is aimed at protecting the rights of the owners of software copyrights and adjusting interest relations in the process of software development, dissemination and use of software. The Computer Software Copyright Registration Measures (《計算機軟件著作權登記辦法》) promulgated by the China Copyright Office on 6 April 1992, subsequently amended on 26 May 2000 and 20 February 2002, regulate registrations of software copyright, exclusive licensing contracts and transfer contracts for software copyrights.

Under the Regulations on the Protection of Rights to Information Network Communication (《信息網絡傳播權保護條例》) issued on 18 May 2006 and amended on 30 January 2013, where an internet information service provider provides any searching or linking service for its service objects or cuts off the links to any infringing work, performance or audio-visual product in accordance with these Regulations after receiving a notice from the owner, it shall not be required to assume the liability for compensation; however, when anyone is fully aware or should have known that any of the linked works, performance or audio-visual products constitutes any infringement, it shall assume the liability of joint infringement.

### Regulations on patent

According to the Patent Law of the People's Republic of China (《中華人民共和國專利法》) promulgated by the SCNPC on 12 March 1984, amended on 4 September 1992, 25 August 2000 and 27 December 2008, and effective on 1 October 2009 as well as the Implementation Rules of the Patent Law of the People's Republic of China (《中華人民共和國專利法實施細則》) promulgated by the State Council on 15 June 2001, amended on 28 December 2002 and 9 January 2010, upon the granting of an invention or a utility model patent right, unless otherwise specified, no organisation or individual may exploit the patent without licensing from the patentee, i.e., they may not, for the purposes of production and business operation, produce, use, offer to sell, sell, or import the patented products, nor use the patented method or use, offer to sell, sell or import products that are acquired directly through the patented method. Upon the granting of a design patent right, no organisation or individual may exploit the patent without licensing from the patentee, i.e., they may not produce, offer to sell, sell or import the design patent products for the purposes of production and business operation. Where the infringement of patent is determined, the infringer shall, in accordance with the regulations, undertake to cease the infringement, take remedial action, pay damages etc. The duration of the invention patent right shall be 20 years and that of the utility model patent right or design patent right shall be 10 years, commencing from the date of application. The patentee shall pay annual fees commencing from the year when the patent right is granted.

### Regulations on trademark

Trademarks are protected by the Trademark Law of the People's Republic of China (《中華人民共和國商標法》) (the “**Trademark Law**”) which was promulgated on 23 August 1982 and subsequently amended on 22 February 1993, 27 October 2001, 30 August 2013 and 23 April 2019 respectively as well as the Implementation Regulation of the Trademark Law of the People's Republic of China (Revised in 2014) (《中華人民共和國商標法實施條例(2014年修訂)》) adopted by the State Council on 29 April 2014 and became effective on 1 May 2014. According to the Trademark Law, registered trademarks include commodity trademarks, service trademarks, collective marks and certification marks.

The Trademark Office under the State Administration of Industry and Commerce, handles trademark registrations and grants a term of ten years to registered trademarks. Trademarks are renewable every ten years where a registered trademark needs to be used after the expiration of its validity term. A registration renewal application shall be filed within twelve months prior to the expiration of the term. A trademark registrant may licence its registered trademark to another party by entering into a trademark licence contract. Trademark licence agreements must be filed with the Trademark Office to be recorded. The licensor shall supervise the quality of the commodities on which the trademark is used, and the licensee shall guarantee the quality of such commodities. As for trademarks, the Trademark Law has adopted a “first come, first file” principle with respect to trademark registration. Where trademark for which a registration application has been made is identical or similar to another trademark which has already been registered or been subject to a preliminary examination and approval for use on the same kind of or similar commodities or services, the application for registration of such trademark may be rejected. Any person applying for the registration of a trademark may not prejudice the existing right first obtained by others, nor may any person register in advance a trademark that has already been used by another party and has already gained a “sufficient degree of reputation” through such party's use.

### Regulations on domain name

Internet domain name registration and related matters are primarily regulated by the Administrative Measures for Internet Domain Names (《互聯網域名管理辦法》), issued by the MIIT on 24 August 2017 and effective as at 1 November 2017, and the Implementing Rules for Registration of

## REGULATORY OVERVIEW

Country Code Top Level Domain Names (《國家頂級域名註冊實施細則》) promulgated and became effective on 18 June 2019. 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.

### LAWS AND REGULATIONS GOVERNING TAXATION

#### Regulations on enterprise income tax

On 16 March 2007, the National People's Congress promulgated the Law of the People's Republic of China on Enterprise Income Tax (《中華人民共和國企業所得稅法》) which became effective on 1 January 2008 and was amended on 24 February 2017 and 29 December 2018, and the State Council enacted the Regulations for the Implementation of the Law on Enterprise Income Tax of the People's Republic of China (《中華人民共和國企業所得稅法實施條例》) on 6 December 2007 (collectively, the "EIT Law") which was amended on 23 April 2019. According to the EIT Law, taxpayers consist of resident enterprises and non-resident enterprises. Under the EIT Law 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 China, or if they have formed permanent establishment institutions or premises in China but there is no actual relationship between the relevant income derived in China and the established institutions or premises set up by them, the enterprise income tax is, in that case, set at the rate of 10% for their income sourced from inside China.

Pursuant to the Measures on Handling of Enterprise Income Tax Incentives (《企業所得稅優惠政策事項辦理辦法(2018修訂)》) which was promulgated on 25 April 2018 and its Appendix entitled Administrative List for Enterprise Income Tax Incentives (《企業所得稅優惠事項管理目錄》), high-tech enterprises supported by the government could enjoy a preferential enterprise income tax at a rate of 15%.

#### Regulations on value-added tax

The Provisional Regulations of the People's Republic of China on Value-added Tax (《中華人民共和國增值稅暫行條例》) were promulgated by the State Council on 13 December 1993 and came into effect on 1 January 1994 which were subsequently amended on 10 November 2008, 6 February 2016 and 19 November 2017. The Detailed Rules for the Implementation of the Provisional Regulations of the People's Republic of China on Value-added Tax (Revised in 2011) (《中華人民共和國增值稅暫行條例實施細則(2011修訂)》) were promulgated by the Ministry of Finance and the State Administration of Taxation ("SAT") on 28 October 2011 and came into effect on 1 November 2011 (collectively, the "VAT Law"). According to the VAT Law, all enterprises and individuals engaged in the sale of goods, the provision of processing, repair and replacement services, and the importation of goods within the territory of mainland China must pay value-added tax. For general VAT taxpayers selling or importing goods other than those specifically listed in the VAT Law, the value-added tax rate is 17%. On 4 April 2018, the Ministry of Finance and the SAT promulgated the Notice on Adjusting Value-added Tax Rates (《關於調整增值稅稅率的通知》), and on 20 March 2019, the Ministry of Finance, the SAT and the General Administration of Customs issued the Announcement on Relevant Policies for Deepening Value-Added Tax Reform (《關於深化增值稅改革有關政策的公告》), which reduced the tax rates for sale, import, and export of goods from 16% and 10% to 13% and 9% respectively.

On 23 March 2016, the Ministry of Finance and the SAT jointly issued the Circular on 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 has been partially repealed and amended on 1 July 2017, 1 January 2018 and 20 March 2019, confirms that business tax would be completely replaced by VAT from 1 May 2016.

### Regulations on dividend withholding tax

The EIT Law provides that an income tax rate of 10% will normally be applicable to dividends payable to investors that are “non-resident enterprises”, and gains derived by such investors, which (a) do not have an establishment or place of business in China or (b) have an establishment or place of business in China, but the relevant income is not effectively connected with the establishment or place of business to the extent such dividends and gains are derived from sources within China. Such income tax on the dividends may be reduced pursuant to a tax treaty between China and the jurisdictions in which our foreign shareholders reside.

Pursuant to the Arrangement Between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Tax 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 “**Double Tax Avoidance Arrangement**”), and other applicable Chinese laws, if a Hong Kong resident enterprise is determined by the competent tax authority in China to have satisfied the relevant conditions and requirements under such Double Tax Avoidance Arrangement and other applicable laws, the 10% withholding tax on the dividends the Hong Kong resident enterprise receives from a China resident enterprise may be reduced to 5% upon receiving approval from in-charge tax authority. However, based on the Notice on Certain Issues with Respect to the Enforcement of Dividend Provisions in Tax Treaties (《國家稅務總局關於執行稅收協定股息條款有關問題的通知》) issued on 20 February 2009 by the SAT, if the relevant Chinese tax authorities determine, in their discretion, that a company benefits from such reduced income tax rate due to a structure or arrangement that is primarily tax-driven, such Chinese tax authorities may adjust the preferential tax treatment.

Based on Notice of the SAT on How to Understand and Determine the “Beneficial Owners” in Tax Agreements (《國家稅務總局關於如何理解和認定稅收協定中“受益所有人”的通知》) (the “**Notice No. 601**”) issued on 27 October 2009, conduit companies, which are established for the purpose of evading or reducing tax, or transferring or accumulating profits, shall not be recognised as beneficial owners and thus are not entitled to the above-mentioned reduced income tax rate of 5% under the Double Tax Avoidance Arrangement. On 3 February 2018, SAT issued the Announcement 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》), which became effective on 1 April 2018 and “the Notice No.601” was repealed simultaneously. The Announcement of the SAT on Issues Relating to “Beneficial Owner” in Tax Treaties stipulates issues relating to determination of “beneficial owner” status in clauses of tax treaties on dividends, interest and royalties.

According to the Announcement on Promulgating the Administrative Measures for Convention Treatment for Non-resident Taxpayers (《關於發佈〈非居民納稅人享受協定待遇管理辦法〉的公告》), which was promulgated on 14 October 2019 and came into effect on 1 January 2020, any non-resident taxpayer meeting conditions for enjoying the convention treatment may be entitled to the convention treatment itself/himself when filing a tax return or making a withholding declaration through a withholding agent, subject to the collection and preservation of relevant materials for review pursuant to these measures and the subsequent administration by the tax authorities.

According to the Notice on Widening the Scope of Application of Temporary Waiver for Withholding Income Tax for Overseas Investors Using Distributed Profits for Direct Investments (《關於擴大境外投資者以分配利潤直接投資暫不徵收預提所得稅政策適用範圍的通知》) jointly issued by Ministry of Finance, SAT, National Development and Reform Commission and the MOFCOM on 29 September 2018 which became effective on 1 January 2018, for the profits distributed by domestic resident enterprises in China to overseas investors, the scope of application of temporarily exemption of withholding income tax for domestic direct investment shall be extended from the foreign investment encouraged projects to cover all non-prohibited foreign investment projects and fields.

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### LAWS AND REGULATIONS GOVERNING LABOUR PROTECTION

The Labour Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》) (the “**Labour Contract Law**”), which was implemented on 1 January 2008 and amended on 28 December 2012, as well as the Implementing Regulations of the Labour Contract Law of the People's Republic of China (《中華人民共和國勞動合同法實施條例》) which was issued on September 18, 2008 and took effect on the same date, primarily aimed at regulating rights and obligations of parties of labour contracts, including matters with respect to the establishment, performance and termination of labour contracts. Pursuant to the Labour Contract Law and its implementing regulations, labour contracts shall be concluded in writing if labour relationships are to be or have been established between enterprises or institutions and the labour. Enterprises and institutions are forbidden to force labour to work beyond the time limit and employers shall pay labour for overtime work in accordance with national regulations. In addition, labour wages shall not be lower than local standards on minimum wages and shall be paid to labour in a timely manner.

According to the Labour Law of the People's Republic of China (《中華人民共和國勞動法》) promulgated on 5 July 1994 and became effective on 1 January 1995, and amended on 27 August 2009 and 29 December 2018, enterprises and institutions shall establish and improve their system of workplace safety and sanitation, strictly abide by state rules and standards on workplace safety, educate labour in labour safety and sanitation in China. Labour safety and sanitation facilities shall comply with state-fixed standards. Enterprises and institutions shall provide labour with a safe workplace and sanitation conditions which are in compliance with state stipulations and the relevant articles of labour protection.

As required under the Regulation of Insurance for Labour Injury (《工傷保險條例》) implemented on 1 January 2004 and amended in 2010, the Provisional Measures for Maternity Insurance of Employees of Corporations (《企業職工生育保險試行辦法》) implemented on 1 January 1995, the Decisions on the Establishment of a Unified Program for Basic 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 16 July 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 14 December 1998, the Unemployment Insurance Measures (《失業保險條例》) promulgated on 22 January 1999, the Interim Regulations Concerning the Collection and Payment of Social Insurance Premiums (《社會保險費徵繳暫行條例》) implemented on 22 January 1999 and the Social Insurance Law of the People's Republic of China (《中華人民共和國社會保險法》) implemented on 1 July 2011, enterprises are obliged to provide their employees in China with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, labor injury insurance and medical insurance. These payments are made to local administrative authorities and any employer that fails to contribute may be ordered to make up within a prescribed time limit and pay a late fee, or be fined in the event that it fails to rectify within the given time limit.

In accordance with the Regulations on the Management of Housing Provident Funds (《住房公積金管理條例》) which was promulgated by the State Council in 1999 and amended in 2002 and on 24 March 2019 respectively, enterprises must register at the competent managing center for housing provident funds and open an account for the deposit of employees' housing provident funds. Enterprises are also required to pay and deposit housing provident funds on behalf of their employees in full and in a timely manner.

### SANCTIONS LAWS AND REGULATIONS

Our International Sanctions Legal Advisers have provided the following summary of the sanctions regimes imposed by their respective jurisdictions. This summary does not intend to set out the laws and regulations relating to the U.S., the European Union, the United Nations and Australian sanctions in their entirety.



## REGULATORY OVERVIEW

### U.S.

#### *Treasury regulations*

OFAC is the primary agency responsible for administering U.S. sanctions programmes against targeted countries, entities, and individuals. “Primary” U.S. sanctions apply to “U.S. persons” or activities involving a U.S. nexus (e.g., funds transfers in U.S. currency or activities involving U.S.-origin goods, software, technology or services even if performed by non-U.S. persons), and “secondary” U.S. sanctions apply extraterritorially to the activities of non-U.S. persons even when the transaction has no U.S. nexus. Generally, U.S. persons are defined as entities organised under U.S. law (such as companies and their U.S. subsidiaries); any U.S. entity’s domestic and foreign branches (sanctions against Iran and Cuba also apply to U.S. companies’ foreign subsidiaries or other non-U.S. entities owned or controlled by U.S. persons); U.S. citizens or permanent resident aliens (“green card” holders), regardless of their location in the world; individuals physically present in the United States; and U.S. branches or U.S. subsidiaries of non-U.S. companies.

Depending on the sanctions program and/or parties involved, U.S. law also may require a U.S. company or a U.S. person to “block” (freeze) any assets/property interests owned, controlled or held for the benefit of a sanctioned country, entity, or individual when such assets/property interests are in the United States or within the possession or control of a U.S. person. Upon such blocking, no transaction may be undertaken or effected with respect to the asset/property interest – no payments, benefits, provision of services or other dealings or other type of performance (in case of contracts/agreements) – except pursuant to an authorisation or licence from OFAC.

OFAC’s comprehensive sanctions programmes currently apply to Cuba, Iran, North Korea, Syria, and the Crimea region of Russia/Ukraine (the comprehensive OFAC sanctions programme against Sudan was terminated on 12 October 2017). OFAC also prohibits virtually all business dealings with persons and entities identified in the SDN List. Entities that a party on the SDN List owns (defined as a direct or indirect ownership interest of 50% or more, individually or in the aggregate) are also blocked, regardless of whether that entity is expressly named on the SDN List. Additionally, U.S. persons, wherever located, are prohibited from approving, financing, facilitating, or guaranteeing any transaction by a non-U.S. person where the transaction by that non-U.S. person would be prohibited if performed by a U.S. person or within the United States.

#### **United Nations**

The United Nations Security Council (the “UNSC”) can take action to maintain or restore international peace and security under Chapter VII of the United Nations Charter. Sanctions measures encompass a broad range of enforcement options that do not involve the use of armed force. Since 1966, the UNSC has established 30 sanctions regimes.

The UNSC sanctions have taken a number of different forms, in pursuit of a variety of goals. The measures have ranged from comprehensive economic and trade sanctions to more targeted measures such as arms embargoes, travel bans, and financial or commodity restrictions. The UNSC has applied sanctions to support peaceful transitions, deter non-constitutional changes, constrain terrorism, protect human rights and promote non-proliferation.

There are 14 ongoing sanctions regimes which focus on supporting political settlement of conflicts, nuclear non-proliferation, and counter-terrorism. Each regime is administered by a sanctions committee chaired by a non-permanent member of the UNSC. There are ten monitoring groups, teams and panels that support the work of the sanctions committees.

## REGULATORY OVERVIEW

United Nations sanctions are imposed by the UNSC, usually acting under Chapter VII of the United Nations Charter. Decisions of the UNSC bind members of the United Nations and override other obligations of United Nations member states.

### **European Union**

Under European Union sanction measures, there is no “blanket” ban on doing business in or with a jurisdiction targeted by sanctions measures. It is not generally prohibited or otherwise restricted for a person or entity to do business (involving non-controlled or unrestricted items) with a counterparty in a country subject to European Union sanctions where that counterparty is not a sanctioned person or not engaged in prohibited activities, such as exporting, selling, transferring or making certain controlled or restricted products available (either directly or indirectly) to, or for use in a jurisdiction subject to sanctions measures.

### **Australia**

The Australian restrictions and prohibitions arising from the sanctions laws apply broadly to any person in Australia, any Australian anywhere in the world, companies incorporated overseas that are owned or controlled by Australians or persons in Australia, and/or any person using an Australian flag vessel or aircraft to transport goods or transact services subject to United Nations sanctions.

## **INTERNATIONAL SANCTIONS APPLICABLE TO IRAN**

### **U.S. regulations**

The United States has historically and currently continues to impose a comprehensive sanctions regime against Iran as a country, as well as specified Iranian persons and entities identified as SDNs. In line with its country-specific and entity-specific sanction legislation, the United States has further enacted legislation targeting non-U.S. persons and entities that engage in certain defined economic activity with Iran.

#### *Country and entity-specific sanctions*

The U.S. has broadly imposed comprehensive country sanctions against Iran through the Iranian Assets Control Regulations, 31 C.F.R. Part 535, the Iranian Transaction and Sanctions Regulations, 31 C.F.R. Part 560, the Iranian Financial Sanctions Regulations, 31 C.F.R. Part 561, and the Iranian Human Rights Abuses Sanctions Regulations, 31 C.F.R. Part 562. Consequently, U.S. persons, including foreign subsidiaries of U.S. corporations, are prohibited from engaging in any transaction involving the purchase, sale, transportation, financing or brokering of goods or services to or from Iran. In addition, multiple U.S. Executive Orders block the property of specified Iranian persons and entities identified as SDNs, including the Government of Iran, the Iranian Republic Shipping Line, and Mahan Airlines, among others. U.S. persons are prohibited from dealing in the property of these SDNs.

#### *Legislation against non-U.S. persons and entities engaging in certain activity*

Since 1996, the U.S. has passed legislation establishing specific “sanctions” for non-U.S. persons and entities who engage in certain defined economic activity with Iran, including, amongst others, the Iran Sanctions Act of 1996, as amended, 50 U.S.C. § 1701; the Comprehensive Iran Sanctions Accountability and Divestment Act of 2010, PL 111-195; and the Iran Threat Reduction and Syria Human Rights Act of 2012, H.R. 1905 (PL 112-158). These legislative actions, however, were vastly eased by the Joint Comprehensive Plan of Action (“**JCPOA**”).

## REGULATORY OVERVIEW

However, more recently in 2018, the United States withdrew from the JCPOA, and through various actions, re-imposed multiple sanctions that had been eased or lifted through the United States' commitment to JCPOA. Consequently 50 Iranian banks and their foreign and domestic subsidiaries have been designated; more than 400 targets have been identified, including over 200 persons and vessels in Iran's shipping and energy sectors; and nearly 250 persons and associated blocked property that previously appeared on the List of Persons Identified as Blocked Solely Pursuant to Executive Order (E.O.) 13599 are now placed on the SDN list. Furthermore, specific programs relating to certain specified activities and dealings with SDNs, including the proliferation of weapons of mass destruction, and support for terrorism, amongst others, which had not been eased pursuant to the JCPOA, are still in force.

### United Nations regulations

The UN first adopted sanctions against Iran on 31 July 2006, pursuant to UN Security Council Resolution 1696. These measures targeted Iran's nuclear and enrichment related activities and imposed an asset freeze on a list of persons involved in proliferation-sensitive activities. Throughout 2006 to 2010, the UN significantly extended its sanctions measures through various UN Security Council resolutions to include wide ranging asset freezes, a ban on Iran's arms exports, travel bans, and extending the embargo on proliferation-sensitive items.

On 20 July 2015, the UN adopted Security Council Resolution 2231 (pursuant to the JCPOA), and consequently terminated the provisions of a number of previous Security Council resolutions. Security Council Resolution 2231, however, also established specific restrictions on Iran, which include (but are not limited to):

1. a requirement for Security Council approval for nuclear-related activities and transfers to or with Iran;
2. asset freezes on individuals and entities designated on the 2231 list; and
3. travel bans on individuals designated on the 2231 list.

### European Union regulations

The EU sanctions on Iran included certain prohibitions on the transfer of funds to and from Iran using Iranian banks and financial institutions, and related to Iran's nuclear weapons program and its violations of human rights. However, on 18 October 2015, through Council Decision (CFSP) 2015/1863 and Council Regulation 2015/1861, the EU terminated all nuclear-related economic and financial restrictive measures pursuant to the aforementioned JCPOA. In addition, Council Decision (CFSP) 2015/1836 took effect as at 16 January 2016 and brought into force regulations providing for sanctions relief that were previously issued pursuant to the EU's commitments under the JCPOA. By virtue of these legislative acts, the EU lifted most of its restrictions under Council Regulation 267/2012 ("**EU Iran Sanctions Regulation**").

Despite this, certain listed goods, technology and software on the Nuclear Suppliers Group list, the Missile Technology Control Regime list and other goods and technology related to other activities inconsistent with the JCPOA, amongst others, remain restricted. Furthermore, a certain number of key Iranian persons and entities remain subject to asset freezing measures. Moreover, Regulation 359/2011 ("**EU Iran Human Rights Violations Sanctions Regulation**") includes restrictions on the transfer of internet monitoring and telecommunications equipment and related services to Iran, as well as additional asset-freezing measures. In particular, EU persons and entities are prohibited from exporting directly or indirectly, certain listed equipment, technology or software, to any person or entity in Iran or for use in Iran (unless authorised by the competent authorities of the relevant EU Member State).

## REGULATORY OVERVIEW

The EU Iran Sanctions Regulation and EU Iran Human Rights Violations Sanctions Regulation have also been extended to apply in the UK Overseas Territories, including the BVI, pursuant to the Iran (Sanctions) (Overseas Territories) Order 2016, the Iran (Restrictive Measures) (Overseas Territories) Order 2011 and the Iran (Restrictive Measures) (Overseas Territories) Order 2013.

### **Australian regulations**

Australia has fully implemented the UN sanctions regime in relation to Iran. However, in October 2008, the Government of Australia announced an autonomous sanctions regime in response to Iran's proliferation-sensitive nuclear and missile programs and efforts to contravene UN sanctions. This sanctions regime has been amended on several occasions.

Currently Australian law sanctions include restrictions (without a sanctions permit) on the direct or indirect supply, sale or transfer to Iran, for use in Iran, or for the benefit of Iran, of a number of goods ("**Export Sanctioned Goods**"). In addition to restrictions on the trade of Export Sanctioned Goods, Australia's autonomous sanctions law also prohibits the provision to any person of certain services, if they assist with or are provided in relation to, the supply, sale or transfer of a sanctioned good to Iran.

## OUR HISTORY

### The Founding of Our Group

We are an integrated game publisher and developer in China with a focus on publishing mobile games in the market of China. The history of our Group can be traced back to 2014 when Mr. Wu Shansheng (吳善生), Mr. Li, Mr. He and Mr. Liao Shourui (廖守睿) established Dinglian Technology to engage in the sales of computers, computer accessories and electronic products, as well as the development of software and websites in the PRC. At the time of the establishment of Dinglian Technology, each of Mr. Wu Shansheng, Mr. Li, Mr. He and Mr. Liao Shourui held 50%, 32%, 10% and 8% equity interests in Dinglian Technology, respectively.

Mr. Li, who wished to invest in gaming business, started to look for opportunities to expand Dinglian Technology's business into gaming industry in early 2015. However, due to lack of relevant experience and fund, the plan to expand into gaming industry had not materialised until he became acquainted with Mr. Sui, who was a passionate gamer and a gaming friend of Mr. Li. Mr. Sui joined our Group in August 2015 as vice general manager. Prior to joining our Group, Mr. Sui had over nine years of experience in management and investment consulting industry with particular focus on gaming industry, during which period he handled more than ten investment and merger and acquisition projects involving gaming companies. Mr. Sui assumed various roles in those projects, mostly as project manager or as the person-in-charge. He had several responsibilities, including organising the data collection, analysis and modelling, testing target gaming companies' products, performing forecast of the business development of the companies, as well as giving investment advice to clients. From these roles and responsibilities, Mr. Sui has developed skill set in analysing characteristics of mobile games, formulating game publishing plans which include identifying marketing and distribution channels. While working in the management and investment consulting field, he had been acquainted with senior management members of game publishers in the investment and merger and acquisitions projects he was involved in. He has also attended gaming exhibitions and industry conferences on a regular basis, either by invitations or on his own initiative, from which he developed extensive connections in the gaming industry. Having strong interest in the gaming businesses, he continued to meet with people from the gaming industry in various exhibitions and conferences on his own capacity even after leaving the management and investment consulting field. With the extensive connections and substantial knowledge and experience in the gaming industry, Mr. Sui's joining in our Group has successfully transformed Dinglian Technology into an integrated game publisher and developer. See "Directors and senior management" in this prospectus for further details of Mr. Sui's experience.

Understanding that both shared the same interests in investing in gaming industry, Mr. Sui and Mr. Li decided to expand into game publishing and developing business. In December 2015, we entered into the first game developing contract. Seeing the potential in game-related business, Mr. Sui decided to acquire the controlling stake of Dinglian Technology from Mr. Wu Shansheng in November 2015. Since then, our business has been focusing on the gaming industry.

Our initial success as a game publisher was mainly attributable to Mr. Sui's industry connections and insight, as well as our positioning in the game publishing business. We saw demand from third-party game publishers for game co-publishers' game promotion and distribution services in order to acquire a wider pool of players and increase the number of potential paying users. In view of our Group's limited human and capital resources back in 2016, our management decided to engage in co-publishing of third party games as a cornerstone for our Group to gradually expand our coverage in and capture market share of the rapidly growing mobile game industry in PRC. Through our game publishing business, we have established revenue streams, accumulated financial resources, and expanded our management and operational teams, which enabled our Group to step into other area of the gaming industry, including publishing self-developed mobile games in 2018.

## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

As at the Latest Practicable Date, Mr. Sui held 50% of the equity interests in Dinglian Technology. Immediately following the completion of the Capitalisation Issue and the Global Offering (without taking into account any Shares that may be issued pursuant to the exercise of the Over-allotment Option and any option that may be granted under the Share Option Scheme), our Company will be owned as to 40.5% by Sun JH. Sun JH is owned as to 100% by Mr. Sui, who is our executive Director and chairman of our Board. Mr. Sui and Sun JH will be our Controlling Shareholders within the meaning of the Listing Rules. See “Relationship with our Controlling Shareholders” in this prospectus.

Mr. Sui is the chairman of our Board, an executive Director and a Controlling Shareholder, while Mr. Li is an executive Director. See “Directors and senior management” in this prospectus for the background and industry experience of Mr. Sui and Mr. Li.

### OUR BUSINESS MILESTONES

Year	Event
2014	Dinglian Technology, one of our PRC Operating Entities, was established in the PRC in December
2015	We commenced the development of our first self-developed mobile game for sale to third party purchaser in December
2016	Our co-publishing business commenced
2017	Dinglian Technology received the Innovative Technology Enterprise Award (科技創新獎 — 科技創新企業) and Innovative Technology Results Award (科技創新獎 — 科技創新成果) from China Association for Quality Evaluation (中國質量評價協會) in December
2018	Our flagship RPG game, Hollow Storm* (虛空風暴) was officially launched and published by us in July

### CORPORATE DEVELOPMENT

The following describes the corporate history of our Company, our subsidiaries and our PRC Operating Entities.

#### Our Company

Our Company was incorporated on 18 April 2018 as an exempted company with limited liability under the laws of the Cayman Islands with an initial authorised share capital of US\$50,000 divided into 500,000,000 Shares of a nominal value of US\$0.0001 each. It is the holding company of our subsidiaries, and its principal business activity is investment holding. As at the date of incorporation, our Company was owned as to 50% by Sun JH, 10% by Hearty Xi, 6% by LYZ Tech, 6% by Super SY, 6% by Wonder H, 6% by Laud HJ, 5% by LHTH Tech, 5% by Optimism YJ, 3% by Good CH, 2% by Knowledge ZH and 1% by Leap HJ, respectively.

As a result of the Reorganisation, our Company indirectly holds all of the equity interests in Khorgos Entertainment, which in turn controls our PRC Operating Entities pursuant to the Contractual Arrangements. See “Reorganisation” in this section for further details.

### **Our Subsidiaries in Hong Kong**

#### ***Sino-Entertainment (HK)***

Sino-Entertainment (HK) was incorporated under the laws of Hong Kong with limited liability on 30 April 2018. As at the date of incorporation, 100 shares of HK\$1.00 each, being the entire issued share capital of Sino-Entertainment (HK), were allotted and issued to our Company. Sino-Entertainment (HK) is an investment holding company which directly holds 100% equity interests in Khorgos Entertainment.

As at the Latest Practicable Date, Sino-Entertainment (HK) remained to be wholly-owned by our Company.

#### ***Dinglian (International)***

Dinglian (International) was incorporated under the laws of Hong Kong with limited liability on 2 February 2017. As at the date of incorporation, 1,000,000 shares of HK\$1.00 each, being the entire issued share capital of Dinglian (International), were allotted and issued to Dinglian Technology. Dinglian (International) is principally engaged in the distribution and sales of online games and software.

As part of the Reorganisation, Dinglian Technology transferred the entire issued share capital of Dinglian (International) to Sino-Entertainment (HK) on 17 April 2019. See “Reorganisation — 6. Transfer of the entire issued share capital of Dinglian (International) by Dinglian Technology to Sino-Entertainment (HK)” in this section.

As at the Latest Practicable Date, Dinglian (International) remained to be wholly-owned by Sino-Entertainment (HK).

### **Our Subsidiary in the PRC**

#### ***Khorgos Entertainment***

On 20 September 2018, Khorgos Entertainment was established under the laws of the PRC with limited liability as a WFOE with an initial registered capital of RMB1,000,000 and remains to be wholly-owned by Sino-Entertainment (HK). Khorgos Entertainment is principally engaged in the design of game software, research and development of online games, and electronic and computing technological development.

Pursuant to its articles of association, Khorgos Entertainment’s registered capital in the amount of RMB1,000,000 will be paid by its shareholders before 31 August 2038.

## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

### Our PRC Operating Entities

Our PRC Operating Entities are the entities which principally affected the results, assets or liabilities of our Group. The following table sets out the details of our PRC Operating Entities as at the Latest Practicable Date which had material contributions to our results of operations during the Track Record Period:

<u>PRC Operating Entities</u>	<u>Date of establishment</u>	<u>Principal business activities</u>	<u>Interests</u>	<u>Direct shareholder(s)</u>
Dinglian Technology	2 December 2014	Internet entertainment business	100%	Registered Shareholders
Khorgos Dinglian	19 July 2017	Internet entertainment business	100%	Dinglian Technology
Beihai Dinglian	28 September 2017	Internet entertainment business	100%	Dinglian Technology

Our business was primarily carried out by the above PRC Operating Entities, which were controlled, through the Contractual Arrangements, by our Company's wholly-owned subsidiary, Khorgos Entertainment. The PRC Operating Entities were accounted for as our wholly-owned subsidiaries pursuant to the Contractual Arrangements.

### *Dinglian Technology*

Dinglian Technology was established under the laws of the PRC with limited liability on 2 December 2014 with an initial registered capital of RMB2,000,000. Dinglian Technology was principally engaged in the management of gaming products, online game development and the provision of internet-related services and ancillary products in the PRC. At the time of its establishment, Dinglian Technology was owned by Mr. Wu Shansheng, an Independent Third Party, as to 50%, Mr. Li as to 32%, Mr. He as to 10% and Mr. Liao Shourui, an Independent Third Party, as to 8%, respectively.

Pursuant to an equity transfer agreement dated 13 November 2015 entered into between Mr. Wu Shansheng and Mr. Sui, Mr. Wu Shansheng agreed to transfer 50% equity interests in Dinglian Technology to Mr. Sui at nil consideration. The nil-consideration was determined on the basis that the registered capital of Dinglian Technology was nil-paid at that time as Mr. Wu Shansheng did not make contribution to the share capital. To register the transfer, the local Administration for Industry and Commerce of the PRC (the "AIC") required that both the transferor and transferee of equity interests be present together at the local AIC. However, the transferor was unable to facilitate and attend the local AIC to register the transfer. With the cooperation of the transferor, Dinglian Technology only filed the registration with the local AIC by the end of 2016 with an updated equity transfer agreement on 8 December 2016 between Mr. Wu Shansheng and Mr. Sui to the same effect as requested by the local AIC due to the lapse of time. As advised by our PRC Legal Advisers, notwithstanding the updated equity transfer agreement and the lapse of time of AIC registration, the above equity transfer became effective on 13 November 2015. Upon completion of the aforesaid transfer, Dinglian Technology became 50% owned by Mr. Sui, 32% owned by Mr. Li, 10% owned by Mr. He and 8% owned by Mr. Liao Shourui, respectively.



## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Pursuant to an equity transfer agreement dated 8 December 2016 entered into between Mr. Liao Shourui as transferor and Mr. Li as transferee, Mr. Li agreed to acquire 8% of the equity interests in Dinglian Technology from Mr. Liao Shourui. On the same day, Mr. He as transferor and Mr. Huang Xin (黃辛) as transferee entered into an equity transfer agreement, pursuant to which Mr. Huang Xin agreed to acquire 10% of the equity interests in Dinglian Technology from Mr. He. Both transfers were made at nil consideration. The nil-consideration was determined on the basis that the registered capital of Dinglian Technology was nil-paid at that time as Mr. Liao Shourui and Mr. He did not make contribution to the share capital. Upon completion of the aforesaid transfers on 8 December 2016, Dinglian Technology was owned as to 50% by Mr. Sui, 40% by Mr. Li and 10% by Mr. Huang Xin, respectively.

On 22 December 2016, the registered capital of Dinglian Technology was increased from RMB2,000,000 to RMB5,000,000, which was contributed by Mr. Sui, Mr. Li and Mr. Huang Xin in proportion to their respective equity interests in Dinglian Technology in the amount of RMB2,500,000, RMB2,000,000 and RMB500,000, respectively. The increased registered capital was fully paid up as at 26 December 2016.

On 26 June 2017, Mr. Li as transferor entered into various equity transfer agreements with each of Mr. Liang Yuezhong (梁躍中), Ms. Shen Shiyin (申師茵), Mr. Liang Hanjun (梁漢君), Mr. Wu Lihui (武立輝), Mr. Liang Hong (梁虹), Mr. Ou Yajie (歐亞傑), Mr. Gao Changhai (高長海) and Mr. Ke Zhenhua (柯振華) as transferees who, prior to their investments in Dinglian Technology, were all Independent Third Parties, pursuant to which:

- (i) Mr. Liang Yuezhong acquired 6% of the equity interests in Dinglian Technology from Mr. Li at a consideration of RMB330,000, which was fully settled on 3 July 2017;
- (ii) Ms. Shen Shiyin acquired 6% of the equity interests in Dinglian Technology from Mr. Li at a consideration of RMB330,000, which was fully settled on 4 July 2017;
- (iii) Mr. Liang Hanjun acquired 6% of the equity interests in Dinglian Technology from Mr. Li at a consideration of RMB330,000, which was fully settled on 5 July 2017;
- (iv) Mr. Wu Lihui acquired 6% of the equity interests in Dinglian Technology from Mr. Li at a consideration of RMB330,000, which was fully settled on 5 July 2017;
- (v) Mr. Liang Hong acquired 5% of the equity interests in Dinglian Technology from Mr. Li at a consideration of RMB275,000, which was fully settled on 4 July 2017;
- (vi) Mr. Ou Yajie acquired 5% of the equity interests in Dinglian Technology from Mr. Li at a consideration of RMB275,000, which was fully settled on 5 July 2017;
- (vii) Mr. Gao Changhai acquired 3% of the equity interests in Dinglian Technology from Mr. Li at a consideration of RMB165,000, which was fully settled on 5 July 2017; and
- (viii) Mr. Ke Zhenhua acquired 2% of the equity interests in Dinglian Technology from Mr. Li at a consideration of RMB110,000, which was fully settled on 26 June 2017.

Mr. Li made the above transfers because he wished to realise his investment gain in Dinglian Technology. The above considerations were determined after arm's length negotiations between the parties with reference to the then registered capital of Dinglian Technology.

## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Upon completion of the aforesaid transfers, Dinglian Technology was owned as to 50% by Mr. Sui, 10% by Mr. Huang Xin, 6% by Mr. Liang Yuezhong, 6% by Ms. Shen Shiyin, 6% by Mr. Liang Hanjun, 6% by Mr. Wu Lihui, 5% by Mr. Liang Hong, 5% by Mr. Ou Yajie, 3% by Mr. Gao Changhai, 2% by Mr. Ke Zhenhua and 1% by Mr. Li, respectively.

As at the Latest Practicable Date, the registered capital of Dinglian Technology in the amount of RMB5,000,000 was fully paid up.

### *Khorgos Dinglian*

Khorgos Dinglian was established under the laws of the PRC with limited liability on 19 July 2017 with a registered capital of RMB1,000,000. Khorgos Dinglian has been wholly-owned by Dinglian Technology since its establishment. Khorgos Dinglian was principally engaged in design and production of game software, as well as development of online games. As part of the Reorganisation, Khorgos Dinglian has transferred its non-restricted businesses to Khorgos Entertainment. See “Reorganisation — 5. Transfer of non-restricted businesses from the PRC Operating Entities to Khorgos Entertainment” in this section.

As at the Latest Practicable Date, the registered capital of Khorgos Dinglian in the amount of RMB1,000,000 was fully paid up.

### *Beihai Dinglian*

Beihai Dinglian was established under the laws of the PRC with limited liability on 28 September 2017 with a registered capital of RMB1,000,000. Beihai Dinglian has been wholly-owned by Dinglian Technology since its incorporation. Beihai Dinglian was principally engaged in software development, data processing, the development of animation games, electronic equipment installation, as well as website design and maintenance. As part of the Reorganisation, Beihai Dinglian has transferred its non-restricted businesses to Khorgos Entertainment. See “Reorganisation — 5. Transfer of non-restricted businesses from the PRC Operating Entities to Khorgos Entertainment” in this section.

As at the Latest Practicable Date, the registered capital of Beihai Dinglian in the amount of RMB1,000,000 was fully paid up.

## PRE-IPO INVESTMENTS

### 1. Overview

Pursuant to Rui Feng Pre-IPO Investment Agreement, Mr. Huang Xin (via HX Tech), Mr. Liang Yuezhong (via LYZ Tech), Mr. Liang Hanjun (via Laud HJ), Mr. Wu Lihui (via Wonder H), Ms. Shen Shiyin (Super SY), Mr. Ou Yajie (via Optimism YJ) and Mr. Liang Hong (via LHTH Tech) agreed to transfer in aggregate 11.5% of the issued share capital of our Company to Rui Feng at a total consideration of HK\$37,087,500.

Pursuant to Together Win Pre-IPO Investment Agreement, Mr. Huang Xin (via Hearty Xi) and Mr. Liang Yuezhong (via S63 Mobile) agreed to transfer 50% of the issued share capital of each of HX Tech and LYZ Tech, respectively, to Together Win at a total consideration of HK\$13,706,250.

## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

### 2. Summary of material terms of the Pre-IPO Investments

The following table sets forth a summary of the material terms of the Pre-IPO Investments:

	<b>Rui Feng Pre-IPO Investment Agreement</b>	<b>Together Win Pre-IPO Investment Agreement</b>
<b>Type of investments</b>	Purchase of Shares held by existing Shareholders	Purchase of shares of intermediate holding companies which own certain Shares in our Company
<b>Date of Pre-IPO Investment Agreements</b>	16 January 2019	16 January 2019 and 7 March 2019 (supplemental agreement)
<b>Effective interests in our Company immediately after the completion of the Pre-IPO Investments</b>	11.5%	2% via HX Tech and 2.25% via LYZ Tech ( <i>Note 1</i> )
<b>Effective interests in our Company upon Listing</b> <i>(Note 2)</i>	9.32%	1.62% via HX Tech and 1.22% via LYZ Tech ( <i>Note 3</i> )
<b>Amount of consideration paid</b>	HK\$37,087,500	HK\$13,706,250
<b>Cost per Share under the Pre-IPO Investments</b>	Approximately HK\$1.00 per Share	Approximately HK\$1.00 per Share ( <i>Note 4</i> )
<b>Date of payment of full consideration</b>	19 February 2019	30 January 2019
<b>Basis of determination of the consideration</b>	Determination of the consideration for the Pre-IPO Investments was based on arm's length negotiations between the existing Shareholders and the Pre-IPO Investors based on business valuation of our Company of around HK\$430 million after taking into consideration the timing of the investments and the status of our business and operating entities and prospects of our business.	
<b>Discount to the Offer Price</b>	Approximately 43.1%, calculated based on the Offer Price of HK\$1.75 per Offer Share, being the mid-point of the proposed Offer Price range	Approximately 43.1%, calculated based on the Offer Price of HK\$1.75 per Offer Share, being the mid-point of the proposed Offer Price range
<b>Use of proceeds from the Pre-IPO Investments</b>	Not applicable since the share transfers were made between the Pre-IPO Investors and existing shareholders.	

## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

	<b>Rui Feng Pre-IPO Investment Agreement</b>	<b>Together Win Pre-IPO Investment Agreement</b>
<b>Strategic benefits brought by the Pre-IPO Investors to our Company</b>	Rui Feng is a close-ended investment fund managed by Beijing Shengda Ruifeng Investment Management Co, Ltd.* (北京盛達瑞豐投資管理有限公司). We believe that the investment would diversify our Shareholder base.	Together Win is wholly owned by Mr. Huang Zhigang. Mr. Huang has extensive experience and vast network in the electronic manufacturing field. We believe that the investment would diversify our Shareholder base.
<b>Lock-up Period</b>	Nil	Nil

*Notes:*

- (1) Together Win acquired 4.25% of the effective interests in the issued share capital of our Company through the acquisition of 50% of the issued share capital of each of HX Tech and LYZ Tech, which owned 4% and 4.5% of the issued share capital of our Company, respectively.
- (2) Without taking into account any Shares which may be allotted and issued upon exercise of the Over-allotment Option or the options to be granted under the Share Option Scheme.
- (3) Upon the Listing, Together Win will effectively hold 2.84% of the issued share capital of our Company through holding 50% of the issued share capital of each of HX Tech and LYZ Tech, which will own 3.24% and 2.44% of the issued share capital of our Company, respectively.
- (4) Calculated on the basis of 37,260,000 Shares to be held Rui Feng and the 50% effective interests in the 27,540,000 Shares to be held by HX Tech and LYZ Tech in aggregate immediately after the completion of the Capitalisation Issue but before the Global Offering.

### 3. Summary of special rights

The following special rights, which have been granted to the Pre-IPO Investors pursuant to the Pre-IPO Investment Agreements, will be terminated upon Listing:

<b>Prior written notifications for certain corporate actions</b>	Our Company shall give prior written notifications to the Pre-IPO Investors before effecting certain corporate actions, including, among others, corporate restructuring, issuing of new Shares and change of registered capital of our Group (except for the purpose of the Reorganisation and Listing).
<b>Anti-dilution</b>	Prior consents from the Pre-IPO Investors are required for any actions which would result in more than 20% dilution of their equity interests in our Company.
<b>Information rights</b>	Our Company shall provide to the Pre-IPO Investors quarterly financial information of our Group by the end of each quarter and an annual audited report of our Group by 31 March of the following year.

#### 4. Public float

To the best of our Directors' knowledge and belief having made all reasonable enquiries, Rui Feng is funded by nine investors, one of whom is Centre Capital Holdings Co., Ltd. ("**Centre Capital**"), which is a company wholly owned by Ms. Huang Yuxuan (黃瑜璇), the sister of Mr. Huang Zhigang, our non-executive Director. The remaining eight investors are all Independent Third Parties. Despite the aforesaid, neither Centre Capital nor Ms. Huang is a core connected person of our Company within the meaning of Rule 1.01 of the Listing Rules. As (i) the acquisition of Rui Feng's shareholding interest in our Company has not been financed directly or indirectly by a core connected person of our Company, and (ii) Rui Feng is not accustomed to take instructions from a core connected person in relation to the acquisition, disposal, voting or other disposition of securities of our Company registered in its name or otherwise held by it, our Shares held by Rui Feng will be counted towards the public float pursuant to Rule 8.24 of the Listing Rules.

Together Win is wholly-owned by Mr. Huang Zhigang, our non-executive Director, and HX Tech and LYZ Tech are both owned as to 50% by Together Win. As such, HX Tech and LYZ Tech are both core connected persons of our Company. Accordingly, our Shares held by HX Tech and LYZ Tech will not be counted towards the public float.

#### 5. Information on the Pre-IPO Investors

##### *Rui Feng*

Rui Feng is a close-ended investment fund incorporated as an exempted company with limited liability under the laws of the Cayman Islands on 24 April 2018. Rui Feng is principally engaged in the business of investment holding. While Rui Feng is a separate business entity from a legal perspective, it is an investment fund managed by Beijing Shengda Ruifeng Investment Management Co., Ltd.\* (北京盛達瑞豐投資管理有限公司) ("**Beijing Ruifeng**"), a company established with limited liability in the PRC on 24 July 2007. Beijing Ruifeng is a member of and a private equity fund manager registered with the Asset Management Association of China (中國證券投資基金業協會), and is principally engaged in investment management, investment consulting, asset management and project investment. Pursuant to an investment management agreement entered into between Rui Feng and Beijing Ruifeng, Beijing Ruifeng will act as Rui Feng's investment manager and will manage Rui Feng's investment portfolio in furtherance of the investment objective described in Rui Feng's offering memorandum or otherwise stipulated by its directors. Rui Feng is wholly-owned by Mr. Zhou Yurong, an Independent Third Party, holding one voting share representing 100% voting power in Rui Feng. Rui Feng is funded by nine investors, holding non-voting shares, one of which is Centre Capital, a company wholly owned by Ms. Huang Yuxuan, sister of Mr. Huang Zhigang and therefore a connected person of our Company. Centre Capital holds approximately 4.3% of the total issued non-voting shares of Rui Feng. The remaining eight investors are Henson Capital (Holdings) Co., Ltd., Top Wing Investment Limited, Tianye Investment Limited, Wanlilai Limited, Yingchuang Investment (Holdings) Limited, Jinjie Capital (Holdings) Co., Ltd., Mingpin Investment (Holdings) Limited and Victory Leader Limited, holding approximately 37.4%, 13%, 13%, 8.7%, 8.7%, 6.1%, 4.3% and 4.3% of the total issued non-voting shares of Rui Feng, respectively, who are all Independent Third Parties. Apart from its interests in our Company and the non-voting interest held by Ms. Huang, Rui Feng has no other relationship with our Group or any core connected person of our Company.

# HISTORY, REORGANISATION AND CORPORATE STRUCTURE

## *Together Win*

Together Win is a company incorporated under the laws of the BVI on 22 May 2018, wholly-owned owned by and an investment holding vehicle of Mr. Huang Zhigang, our non-executive Director. Accordingly, Together Win is a connected person of our Company.

### **Sole Sponsor’s confirmation**

The Sole Sponsor considers that the Pre-IPO Investments by the Pre-IPO Investors are in compliance with the “Interim Guidance on Pre-IPO Investments” and “Guidance on Pre-IPO Investments” issued by the Stock Exchange in January 2012 (updated in March 2017) and October 2012 (updated in July 2013 and March 2017), respectively, for the following reasons: (i) the relevant consideration under the Pre-IPO Investments had been fully and irrevocably settled and received by the relevant existing Shareholders (as transferors) on or before 7 March 2019, which was more than 28 clear days before the date of our first submission of the listing application form to the Stock Exchange in relation to the Listing; and (ii) the special rights that were granted to the Pre-IPO Investors in the Pre-IPO Investments will be terminated automatically upon Listing.

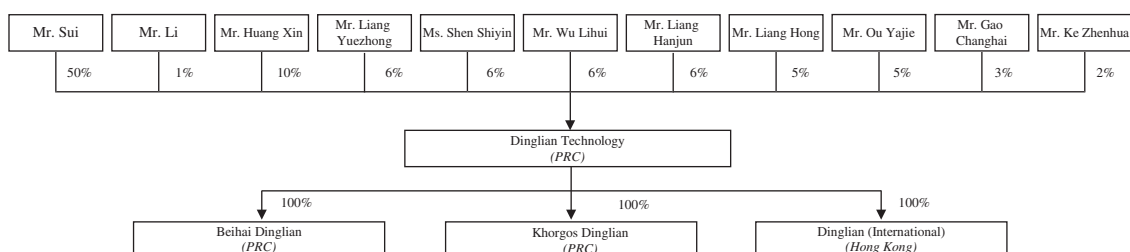
### **Previous contemplation for possible listing on a PRC stock exchange**

In view of the business growth of Dinglian Technology, the shareholders of Dinglian Technology have previously contemplated for a listing on a stock exchange in the PRC to raise fund for its business expansion (the “**PRC Listing Plan**”). However, no listing application has been submitted to any PRC stock exchange.

The shareholders of Dinglian Technology have decided not to proceed with the PRC Listing Plan, but to seek for listing on the Main Board of the Stock Exchange because the shareholders considered that (i) the listing process in the PRC was anticipated to be lengthy and would take longer time than expected; and (ii) Hong Kong has a more mature stock market for game publishing and development industry with more sophisticated professional advisers and broader base of institutional investors.

## **REORGANISATION**

The following chart sets forth our corporate and shareholding structure immediately prior to the Reorganisation:



## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

To optimise the management of our business and in preparation for the Listing, we underwent the Reorganisation which involved the following steps:

### **1. Incorporation of our Company**

Our Company was incorporated on 18 April 2018 as an exempted company with limited liability under the laws of the Cayman Islands with an initial authorised share capital of US\$50,000 divided into 500,000,000 Shares of a nominal value of US\$0.0001 each. On the date of incorporation, the initial subscriber of our Company, an Independent Third Party, transferred the one issued Share of US\$0.0001 each in our Company at a consideration of US\$0.0001 to Sun JH, and additional 49,999,999, 10,000,000, 6,000,000, 6,000,000, 6,000,000, 6,000,000, 5,000,000, 5,000,000, 3,000,000, 2,000,000 and 1,000,000 Shares were allotted and issued at par, credited as fully paid, to Sun JH, Hearty Xi, LYZ Tech, Super SY, Wonder H, Laud HJ, LHTH Tech, Optimism YJ, Good CH, Knowledge ZH and Leap HJ, respectively. Accordingly, as at the date of incorporation, our Company was owned as to 50% by Sun JH, 10% by Hearty Xi, 6% by LYZ Tech, 6% by Super SY, 6% by Wonder H, 6% by Laud HJ, 5% by LHTH Tech, 5% by Optimism YJ, 3% by Good CH, 2% by Knowledge ZH and 1% by Leap HJ, respectively.

### **2. Incorporation of Sino-Entertainment (HK)**

Sino-Entertainment (HK) was incorporated under the laws of Hong Kong with limited liability on 30 April 2018. As at the date of incorporation, 100 shares of HK\$1.00 each, being the entire issued share capital of Sino-Entertainment (HK), were allotted and issued, credited as fully paid, to our Company. Sino-Entertainment (HK) serves as an investment holding company which directly holds 100% equity interests in Khorgos Entertainment.

### **3. Establishment of WFOE by Sino-Entertainment (HK)**

On 20 September 2018, Khorgos Entertainment was established under the laws of the PRC as a WFOE with a registered capital of RMB1,000,000. Khorgos Entertainment has been a wholly-owned subsidiary of Sino-Entertainment (HK) since its establishment and is principally engaged in the design of game software, research and development of online games, and electronic and computing technological development.

On 28 January 2019, Khorgos Entertainment established its Beihai branch office under the laws of the PRC.

### **4. Contractual Arrangements entered into between Khorgos Entertainment and the PRC Operating Entities**

In order to comply with relevant PRC laws and regulations, while at the same time exercising effective control over all of our operations, on 7 November 2018, Khorgos Entertainment entered into various agreements with Dinglian Technology and its direct shareholders which constitute the Contractual Arrangements, through which our Group is able to obtain effective control over, and enjoy all economic benefits arising from the business of our PRC Operating Entities. See “Contractual Arrangements” in this prospectus.

### **5. Transfer of non-restricted businesses from the PRC Operating Entities to Khorgos Entertainment**

As part of the Reorganisation, the PRC Operating Entities have transferred their non-restricted businesses (including game research and development) to Khorgos Entertainment. Khorgos Entertainment will carry on such non-restricted businesses and will sign new business contracts. By way of Contractual Arrangements, business contracts in relation to non-restricted businesses which have not been completed or terminated would be performed by Khorgos Entertainment. The relevant employees of Dinglian Technology, Khorgos Dinglian and Beihai Dinglian have terminated the labour contracts with these companies and have entered into new labour contracts with Khorgos Entertainment. The equipment and materials essential to the businesses were also transferred to Khorgos Entertainment.

According to the Notice of the Ministry of Information Industry on Strengthening the Management of Value-added Telecommunications Services for Foreign-invested Enterprises (《關於加強外商投資經營增值電信業務管理的通知》) issued on 13 July 2006, the internet domain names and registered trademarks used by operators of value-added telecommunications services shall be held by them (including shareholders of the company), and foreign investors shall not by way of domain name authorisation or registered trademark authorisation circumvent the requirements of Administrative Provisions on Foreign-invested Telecommunications Enterprises (《外商投資電信企業管理規定》) over the domestic value-added telecommunications companies so as to illegally operate value-added telecommunications services in China. In accordance with the above provisions, the relevant internet domain names and registered trademarks used by the PRC Operating Entities shall be held by them or their shareholders and shall not be transferred to Khorgos Entertainment.

### **6. Transfer of the entire issued share capital of Dinglian (International) by Dinglian Technology to Sino-Entertainment (HK)**

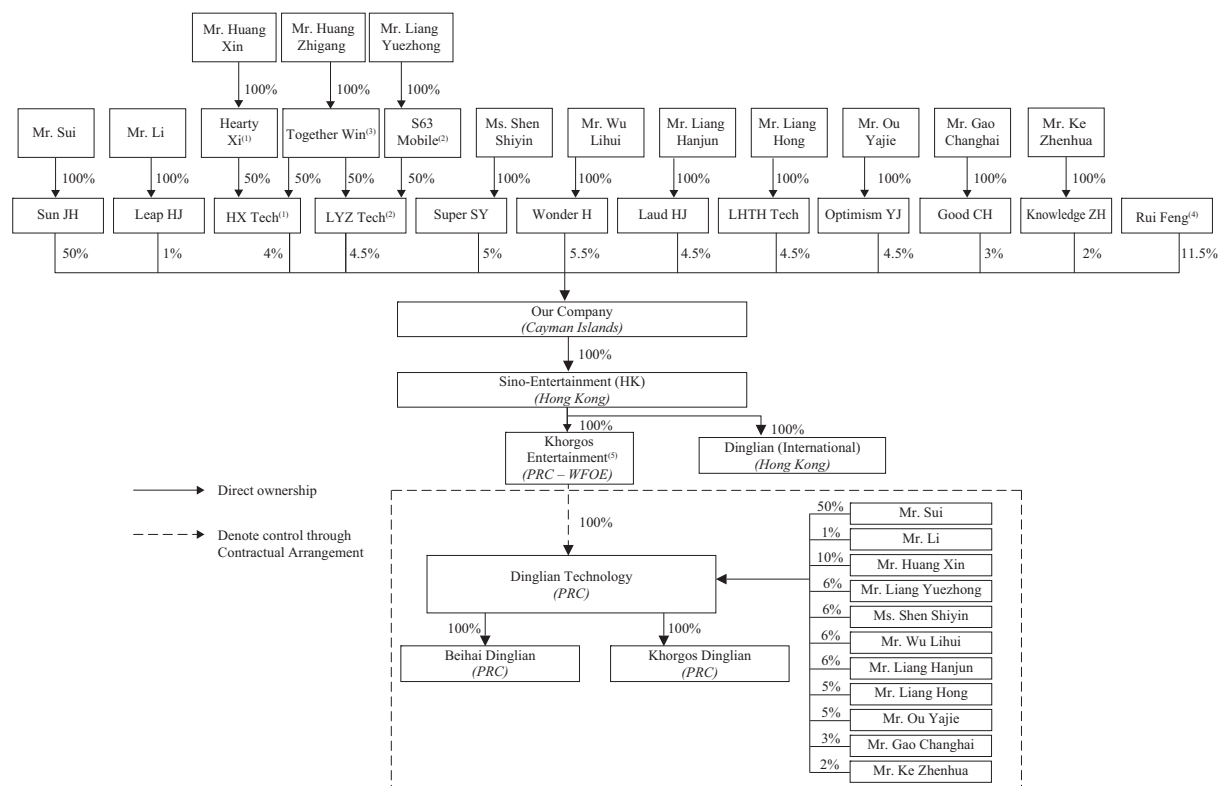
On 17 April 2019, Sino-Entertainment (HK) acquired the entire issued share capital in Dinglian (International) from Dinglian Technology at a consideration of HK\$14,000,000.

The share transfer was completed on 17 April 2019. Dinglian (International) has become an indirect wholly-owned subsidiary of our Company since then.



# HISTORY, REORGANISATION AND CORPORATE STRUCTURE

The following chart sets forth the corporate and shareholding structure of our Group immediately after the completion of the Reorganisation and the Pre-IPO Investments:



*Notes:*

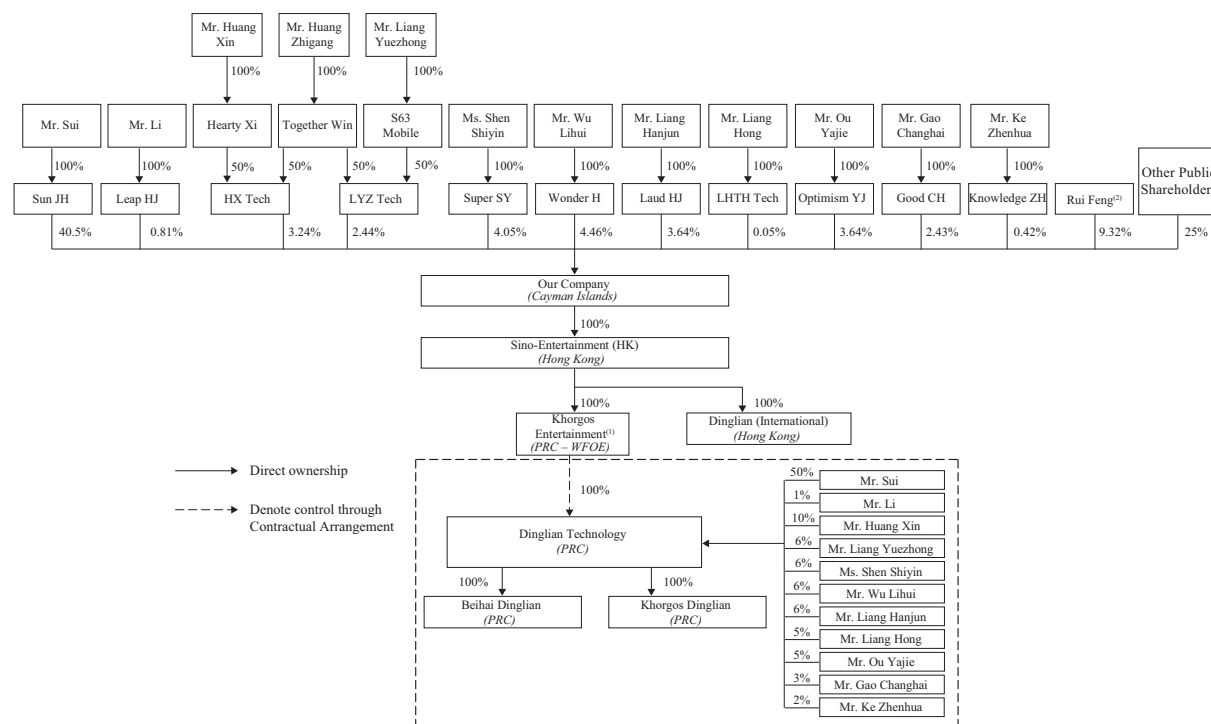
- (1) On 24 December 2018, Mr. Huang Xin transferred the entire issued share capital of HX Tech to Hearty Xi, which has been wholly owned by Mr. Huang since its incorporation.
- (2) On 24 December 2018, Mr. Liang Yuezhong transferred the entire issued share capital of LYZ Tech to S63 Mobile, which has been wholly owned by Mr. Liang since its incorporation.
- (3) As part of the Pre-IPO Investments, on 7 March 2019, Hearty Xi and S63 Mobile transferred 50% shareholding in each of HX Tech and LYZ Tech to Together Win. See “Pre-IPO Investments” in this section.
- (4) As part of the Pre-IPO Investments, on 7 March 2019, HX Tech, LYZ Tech, Laud HJ, Wonder H, Super SY, Optimism YJ and LHTH Tech transferred in aggregate 11.5% shareholding in our Company to Rui Feng. See “Pre-IPO Investments” in this section.
- (5) Khorgos Entertainment exercises effective control over and receives 100% economic benefits from the PRC Operating Entities via the Contractual Arrangements.

# HISTORY, REORGANISATION AND CORPORATE STRUCTURE

## CAPITALISATION ISSUE AND GLOBAL OFFERING

Conditional upon the share premium account of our Company being credited as a result of the Global Offering, our Company will capitalise all or a portion, as the case may be, of the balance of the share premium account and apply such sum in paying up in full at nominal value a total of 224,000,000 Shares for allotment and issue to the existing Shareholders of our Company. Immediately after the Capitalisation Issue and the Global Offering (without taking into account any Shares which may be allotted and issued upon exercise of the Over-allotment Option or the options to be granted under the Share Option Scheme) each of Sun JH, Leap HJ, HX Tech, LYZ Tech, Super SY, Wonder H, Laud HJ, LHTH Tech, Optimism YJ, Good CH, Knowledge ZH, Rui Feng and the public holders of Shares will hold approximately 40.5%, 0.81%, 3.24%, 2.44%, 4.05%, 4.46%, 3.64%, 0.05%, 3.64%, 2.43%, 0.42%, 9.32% and 25% of the enlarged issued share capital of our Company, respectively.

The following chart sets forth our shareholding structure immediately following completion of the Global Offering and Capitalisation Issue (without taking into account any Shares which may be allotted and issued upon exercise of the Over-allotment Option or any options that may be granted under the Share Option Scheme):



Notes:

- (1) Khorgos Entertainment exercises effective control over and receives 100% economic benefits from the PRC Operating Entities via the Contractual Arrangements.
- (2) As part of the Pre-IPO Investments, on 7 March 2019, HX Tech, LYZ Tech, Laud HJ, Wonder H, Super SY, Optimism YJ and LHTH Tech transferred in aggregate 11.5% shareholding in our Company to Rui Feng. See “Pre-IPO Investments” in this section.

## CHINESE REGULATORY REQUIREMENTS

In relation to all of the transfers of equity interests and increases in registered capital in our subsidiaries established in the PRC as described in this section, our PRC Legal Advisers have confirmed that all requisite approvals and/or registrations from the PRC authorities have been obtained and all relevant PRC laws and regulations have been complied with.

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

According to the Provisions Regarding 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》) (the “**M&A Rules**”) jointly issued by the MOFCOM, the State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產管理監督委員會), the SAT, the CSRC, State Administration of Industry and Commerce and the SAFE on 8 August 2006 and effective as at 8 September 2008 and amended in June 2009, a foreign investor is required to obtain necessary approvals when it: (i) acquires the equity of a domestic enterprise so as to convert the domestic enterprise into a foreign-invested enterprise; (ii) subscribes the increased capital of a domestic enterprise so as to convert the domestic enterprise into a foreign-invested enterprise; (iii) establishes a foreign-invested enterprise through which it purchases the assets of a domestic enterprise and operates these assets; or (iv) purchases the assets of a domestic enterprise, and then invests such assets to establish a foreign invested enterprise. Where a domestic company, enterprise or natural person intends to acquire its/his/her related domestic company in the name of an offshore company which it/he/she lawfully established or controls, the acquisition shall be subject to the examination and approval of the MOFCOM, and an offshore special purpose vehicle formed for listing purposes and controlled directly or indirectly by PRC companies or individuals shall obtain the approval of the CSRC prior to the listing and trading of such special purpose vehicle’s securities on an overseas stock exchange, especially in the event that the special purpose vehicle acquires equity interests in PRC companies using shares of offshore companies as the consideration.

As advised by our PRC Legal Advisers, the M&A Rules are not applicable to the Reorganisation as Khorgos Entertainment was incorporated as a wholly foreign-owned enterprise without involving acquisition of the equity or assets of a “PRC domestic company” specified in the M&A Rules, and approval from the MOFCOM, the CSRC or other PRC government authorities for the Listing is therefore not required.

### SAFE REGISTRATION IN CHINA

On 4 July 2014, the SAFE issued the Circular of the State Administration of Foreign Exchange on the Administration of Foreign Exchange Involved in Overseas Investment, Financing and Round-trip Investment Conducted by Chinese Mainland Residents via Special-purpose Companies (Hui Fa [2014] No. 37) (《關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) (the “**SAFE Circular No. 37**”), which came into effect on the same date. On 13 February 2015, the SAFE issued the Circular of the State Administration of Foreign Exchange on Further Simplifying and Improving Policies for Foreign Exchange Administration for Direct Investment (Hui Fa [2015] No. 13) (《關於進一步簡化和改進直接投資外匯管理政策的通知》) (the “**SAFE Circular No. 13**”), which came into effect on 1 June 2015. According to the SAFE Circular No.37 and SAFE Circular No.13, PRC residents shall apply to the relevant banks for foreign exchange registration before making capital contribution to offshore special purpose vehicles with legitimate holdings of domestic or overseas assets or interests.

As advised by our PRC Legal Advisers, all ultimate PRC resident individual shareholders of our Company have completed all relevant foreign exchange registration under the SAFE Circular No. 37 and SAFE Circular No. 13 in October 2018.

## CONTRACTUAL ARRANGEMENTS

### PRC REGULATORY BACKGROUND

#### Overview

Foreign investment activities in the PRC are mainly governed by the Guidance Catalog of Industries for Foreign Investment (《外商投資產業指導目錄》) (the “**Catalog**”) which was promulgated and has been amended from time to time jointly by the MOFCOM and the NDRC, and the Negative List jointly promulgated by MOFCOM and the NDRC. The Catalog divides industries into four categories in terms of foreign investment, namely, “encouraged”, “restricted”, “prohibited” and “permitted” (the last category of which includes all industries not listed under the “encouraged”, “restricted” and “prohibited” categories). The provisions relating to “restricted” and “prohibited” categories are repealed and replaced by the Negative List, according to which foreign investors shall not engage in prohibited items listed in the Negative List and shall comply with restriction requirements when engaging in restricted items listed in the Negative List. As advised by our PRC Legal Advisers, a summary of our business operations that are subject to foreign investment restriction or prohibition in accordance with the Negative List (2019 version) effective since 30 July 2019 and the GAPP Notice is set out below:

#### Categories

#### Our business/operation

#### “Prohibited”

Internet cultural business (except for music)

Dinglian Technology’s principal business involves the operations of mobile games, which falls within the scope of “Internet cultural products” under the Interim Provisions on the Administration of Internet Culture (《互聯網文化管理暫行規定》). Dinglian Technology held an Online Culture Business Permit (網絡文化經營許可證) issued by the Department of Culture of Guangxi Zhuang Autonomous Region (廣西壯族自治區文化廳), which is not required to be renewed after its expiration in March 2020.

Beihai Dinglian holds an Online Culture Business Permit issued by the Department of Culture of Guangxi Zhuang Autonomous Region. It plans to but has not commenced the operations of mobile games.

Khorgos Dinglian holds an Online Culture Business Permit issued by the Department of Culture and Tourism of Xinjiang Uygur Autonomous Region (新疆維吾爾自治區文化和旅遊廳). It plans to but has not commenced the operations of mobile games.

According to the Negative List and the GAPP Notice, foreign investors are prohibited from holding equity interests in any enterprise engaging in Internet cultural business or operation of online games.

Further, according to the consultation with the Department of Culture and Tourism of Guangxi Zhuang Autonomous Region (廣西壯族自治區文化和旅遊廳), being the competent authority to confirm matters relating to the operation of mobile game business in Guangxi, we were given to understand that the Online Culture Business Permit, the permission to operate mobile game business, has not been and will not be granted to any foreign-invested enterprise.

## CONTRACTUAL ARRANGEMENTS

### Categories

### Our business/operation

#### “Restricted”

Value-added telecommunication services business

The principal business of Dinglian Technology involves circulation of mobile games through the internet, which falls within the scope of “value-added telecommunication service” under the Telecommunications Regulations of the People’s Republic of China (《中華人民共和國電信條例》) (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. Dinglian Technology holds an ICP Licence (within the business scope of Internet content provider) for the provision of Internet contents issued by the Communication Administration of Guangxi Zhuang Autonomous Region (廣西壯族自治區通信管理局).

Each of Beihai Dinglian and Khorgos Dinglian holds an ICP Licence issued by the Communication Administration of Guangxi Zhuang Autonomous Region and the Communication Administration of Xinjiang Uygur Autonomous Region respectively, but they have not yet commenced the circulation of mobile games through the internet.

As advised by our PRC Legal Advisers, while the principal business of Dinglian Technology of online circulation and operations of mobile games 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, our principal business including online circulation and operations of mobile games prohibits foreign investments under current PRC laws and regulations.

For further details on the limitations on foreign ownership in PRC companies conducting the above businesses under PRC laws and regulations, please see “Regulatory overview” in this prospectus.

### Qualification requirements

#### *Value-added telecommunication service business*

On 11 December 2001, the State Council promulgated the Administrative Provisions on Foreign-Invested Telecommunications Enterprises (《外商投資電信企業管理規定》) (the “**FITE Regulations**”), which were amended on 10 September 2008 and 6 February 2016. According to the FITE Regulations, foreign investors are not allowed to hold more than 50% of the equity interests of a company providing value-added telecommunications services, including internet information services. In addition, a foreign investor who invests in value-added telecommunications business in the PRC must possess prior experience in operating value-added telecommunications business and a proven track record of business operations overseas (the “**Qualification Requirements**”). Foreign investors that meet these requirements must obtain approvals from the MIIT and/or its authorised local counterparts which retain considerable discretion in granting such approvals. Currently none of the applicable PRC laws, regulations or rules provide clear guidance or interpretation on the Qualification Requirements. The MIIT

## CONTRACTUAL ARRANGEMENTS

has issued the latest guidance memorandum on the application requirement for establishing foreign-invested valued-added telecommunications enterprises in the PRC on 1 November 2018. According to this guidance memorandum, an applicant is required to provide, among other things, a form of basic information of the applicant's investors, which shall include an introduction of previous experience in the provision of value-added telecommunications services by foreign investors, together with relevant supporting documents. 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.

For the purpose of meeting the Qualification Requirements, we are in the process of establishing and accumulating overseas operation experience, including, in particular:

- Dinglian (International), our Hong Kong subsidiary, has been incorporated in Hong Kong in 2017 for the purpose of carrying out and expanding our operations overseas;
- we have registered relevant trademarks in Hong Kong with a view to serving our mobile game businesses in Hong Kong and overseas;
- we have supplied certain mobile games on iOS App Store in Hong Kong for download by users overseas, and will provide more mobile games for download and use by users overseas; and launch mobile games in foreign languages for users overseas, including users in other Asian markets; and
- Dinglian (International) has provided game publishing and promotion services for certain overseas customers, and will establish business cooperation with more online game-related companies overseas to develop our overseas game businesses.

As advised by our PRC Legal Advisers, as at the Latest Practicable Date, no applicable PRC laws provided clear guidance or interpretation on the Qualification Requirements. According to the consultation with the Communication Administration of Guangxi Zhuang Autonomous Region, being the competent authority to regulate the operation of value-added telecommunications business, whether an applicant meets the Qualification Requirements will be determined case by case in practice. In view of the above and the steps taken, our PRC Legal Advisers are of the view that, subject to the discretion of the competent authority in determining fulfillment of the Qualification Requirements, the above steps taken by us are reasonable, appropriate and sufficient in relation to the Qualification Requirements.

On 13 July 2006, the MIIT issued the Circular on Strengthening the Administration of Foreign Investment in Value-added Telecommunications Services (《信息產業部關於加強外商投資經營增值電信業務管理的通知》) (the “**MIIT Notice**”). The MIIT Notice further strengthened regulation on foreign investment in value-added telecommunications services, including prohibiting domestic telecommunications service providers from leasing, transferring or selling telecommunications business operating licences to any foreign investor in any form, or requiring domain names and trademarks used by any value-added telecommunications service providers to be held by either the holder of the ICP Licence or shareholders of such holder of the ICP Licence. Furthermore, domestic telecommunications service providers are prohibited from providing any resources, premises, facilities and other assistance in any form to foreign investors for their illegal operation of any telecommunications businesses in the PRC. If the holder of the ICP Licence fails to comply with the requirements in the MIIT Notice and fails to remedy its non-compliance within a specified period of time, the MIIT or its local branches may take measures against such holder, including revoking its ICP Licence.

## CONTRACTUAL ARRANGEMENTS

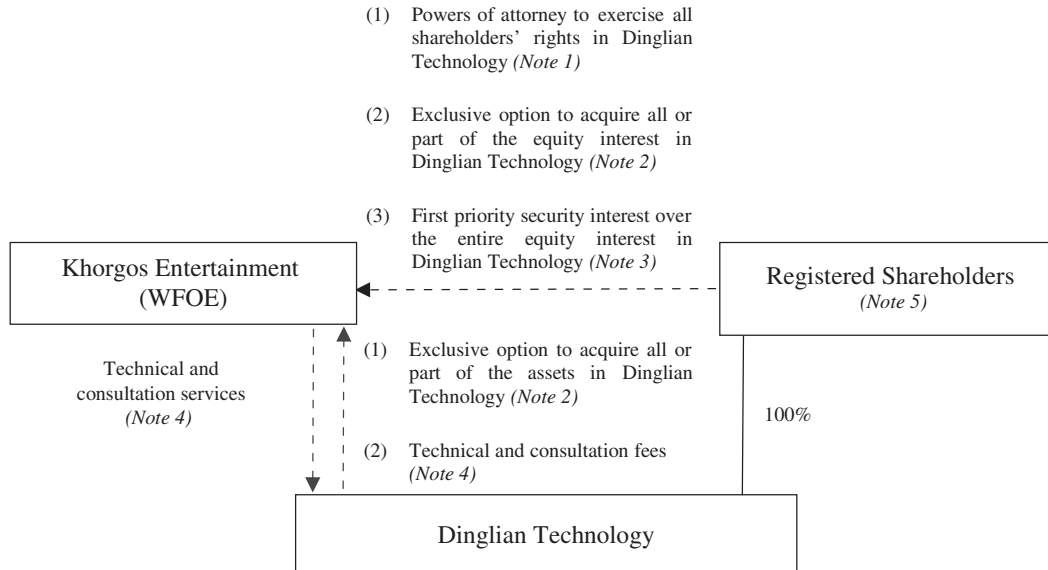
According to the consultation with the Communication Administration of Guangxi Zhuang Autonomous Region, being the competent authority to regulate the operation of value-added telecommunications business and as confirmed by our PRC Legal Advisers, we were given to understand that (i) no applicable PRC laws, regulations or rules have provided clear guidance or interpretation on the Qualification Requirements, (ii) foreign investor's fulfilment of Qualification Requirements remains ultimately subject to substantive examination of the MIIT and/or its local counterparts, and (iii) it will not be approved if Sino-Entertainment (HK) applies to acquire any equity interests of Dinglian Technology in view of the current experience and qualification possessed by Sino-Entertainment (HK). Our PRC Legal Advisers have advised us that obtaining such approval and the ICP Licence by a sino-foreign equity joint venture is subject to substantial uncertainties.

Given that (i) foreign investors are prohibited from holding equity interests in any enterprise engaging in internet cultural business or operation of online games, (ii) there are substantial uncertainties for a sino-foreign equity joint venture to obtain the ICP Licence, and (iii) it will not be approved if Sino-Entertainment (HK) intends to acquire equity interests of Dinglian Technology, as confirmed by our PRC Legal Advisers, it is not viable for our Company to hold the PRC Operating Entities directly or indirectly through equity ownership. Instead, in line with the common practice in the PRC game publishing industry which is subject to foreign investment restrictions, our Company could gain effective control over, and receive all economic benefits generated by the business currently operated by the PRC Operating Entities through the Contractual Arrangements between Khorgos Entertainment, our Company's wholly-owned subsidiary on the one hand, and Dinglian Technology and the Registered Shareholders on the other hand. The Contractual Arrangements allow the PRC Operating Entities' financials and results of operations to be consolidated into our financials and results of operations under HKFRS as if they were wholly-owned subsidiaries of our Group.

# CONTRACTUAL ARRANGEMENTS

## CONTRACTUAL ARRANGEMENTS

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



- (1) See “Contractual Arrangements — Summary of the agreements under the Contractual Arrangements and other key terms thereunder — Shareholders’ Rights Entrustment Agreement and Powers of Attorney” on page 140 of this prospectus for details.
- (2) See “Contractual Arrangements — Summary of the agreements under the Contractual Arrangements and other key terms thereunder — Exclusive Option Agreement” on page 137 of this prospectus for details.
- (3) See “Contractual Arrangements — Summary of the agreements under the Contractual Arrangements and other key terms thereunder — Share Pledge Agreement” on page 139 of this prospectus for details.
- (4) See “Contractual Arrangements — Summary of the agreements under the Contractual Arrangements and other key terms thereunder — Exclusive Business Cooperation Agreement” on page 138 of this prospectus for details.
- (5) See “Definitions” on page 30 of this prospectus for details of the Registered Shareholders.
- (6) “—————” denotes direct legal and beneficial ownership in the equity interest, and “- - ->” denotes contractual relationship.

### Circumstances in which we will unwind the Contractual Arrangements

In the event that foreign restrictions under current PRC laws and regulations are removed (and assuming there are no other changes in the relevant PRC laws and regulations), Khorgos Entertainment will exercise the call option under the Exclusive Option Agreement (as defined below) in full to unwind the Contractual Arrangements so that we are able to directly operate our mobile game business without using the Contractual Arrangements or include only the domestic interests under the Contractual Arrangements.

### Summary of the agreements under the Contractual Arrangements and other key terms thereunder

A description of each of the specific agreements that comprises the Contractual Arrangements is set out below.

#### *Exclusive Option Agreement*

Dinglian Technology and the Registered Shareholders entered into an exclusive option agreement with Khorgos Entertainment on 7 November 2018 (the “**Exclusive Option Agreement**”), pursuant to which Khorgos Entertainment (or its designee) has (i) an irrevocable and exclusive right to purchase from the Registered Shareholders all or any part of their equity interests in Dinglian Technology, and (ii) an irrevocable and exclusive right to purchase from Dinglian Technology all or any part of its assets, at a



## CONTRACTUAL ARRANGEMENTS

nominal price, unless the relevant government authorities request that another amount be used as the purchase price and in which case the purchase price shall be the minimum amount that meets such requirement. Nevertheless, the Registered Shareholders and/or Dinglian Technology shall return the amount of purchase price they have received in full to Khorgos Entertainment (or its designee). At Khorgos Entertainment's request, the Registered Shareholders and/or Dinglian Technology will transfer their respective equity interests and/or assets to Khorgos Entertainment (or its designee) after Khorgos Entertainment exercises its purchase right.

The Exclusive Option Agreement will not terminate until the purchased equity interests and/or acquired assets have been transferred to Khorgos Entertainment (or its designee) in accordance with the Exclusive Option Agreement and if Khorgos Entertainment or its subsidiaries are allowed to conduct the relevant business that Dinglian Technology operates under the then current PRC laws and regulations. However, Khorgos Entertainment has the right to unilaterally terminate the Exclusive Option Agreement at any time by written notice.

In order to prevent the flow of the assets and value of Dinglian Technology to the Registered Shareholders, during the term of the Exclusive Option Agreement, none of the equity interests in and assets of Dinglian Technology are to be sold, transferred, pledged or otherwise disposed of without the prior written consent of Khorgos Entertainment.

In addition, Dinglian Technology is not allowed to make any distribution to the Registered Shareholders without the prior written consent of Khorgos Entertainment. In the event that the Registered Shareholders receive any profit distribution or dividend from Dinglian Technology, the Registered Shareholders must pay or transfer such amount to Khorgos Entertainment (or its designee) within three business days.

If Khorgos Entertainment exercises this option, all or any part of the equity interests of Dinglian Technology acquired would be transferred to Khorgos Entertainment, and the benefits of equity ownership would flow to our Company and our Shareholders.

### *Exclusive Business Cooperation Agreement*

Dinglian Technology entered into an exclusive business cooperation agreement with Khorgos Entertainment on 7 November 2018 (the "**Exclusive Business Cooperation Agreement**"), pursuant to which Dinglian Technology agreed to engage Khorgos Entertainment as its exclusive provider for business support, technical and consultation services, including technology services, network support and maintenance, research and development, employee training, business and management consultancy, intellectual property licensing, equipment leasing, market research and other services, in exchange for a service fee. Under these arrangements, the service fee, subject to Khorgos Entertainment's adjustment, shall be equal to profit before tax of Dinglian Technology and may also include retained losses of Dinglian Technology from previous financial year(s) (if any), after deduction of necessary costs, expenses, taxes and other statutory contribution in relation to the respective financial year. Khorgos Entertainment may at its sole discretion adjust the amount of the service fee after taking into account other factors such as complexity of services provided and market rate of similar service.

During the term of the Exclusive Business Cooperation Agreement, Khorgos Entertainment enjoys all of the economic benefits and takes up all of the risks in relation to Dinglian Technology's business operation. Khorgos Entertainment may provide Dinglian Technology with financial assistance by way of loans or other means and may enter into separate agreements where necessary to the extent permitted by application PRC laws and regulations.

Intellectual property rights are developed during the normal course of business of the PRC Operating Entities since their daily operations involve, among other things, research and development

## CONTRACTUAL ARRANGEMENTS

and game development. Pursuant to the Exclusive Business Cooperation Agreement, Khorgos Entertainment has the exclusive and proprietary rights to all intellectual properties developed by Dinglian Technology, except for those which shall be owned by Dinglian Technology in order to maintain or renew its licences and permits, given Khorgos Entertainment provides technical and consultation services to Dinglian Technology. Dinglian Technology guarantees that there is no defect in any of these rights and will compensate Khorgos Entertainment for any damage caused to Khorgos Entertainment if any. The services provided by Khorgos Entertainment typically include providing core technical services, such as programming, while Dinglian Technology executes the ideas and supplements with details, such as art designing and text editing, and intellectual properties. Though we do not intend to transfer any existing intellectual property rights held by Dinglian Technology to Khorgos Entertainment, Dinglian Technology is required under the Contractual Arrangements to obtain Khorgos Entertainment's prior written consent before it transfers, assigns or disposes of any of its intellectual properties to any third party. Our PRC Legal Advisers are of the opinion that: (i) such provision relating to the intellectual properties will not result in these agreements being challenged by the relevant government authorities in the PRC; (ii) it is legal for Dinglian Technology to hold the intellectual property rights in relation to our Group's business; and (iii) the PRC Operating Entities are in full compliance with the requirements of the Circular of the Ministry of Information Industry on Intensifying the Administration of Foreign Investment in Value-added Telecommunications Services (《關於加強外商投資經營增值電信業務管理的通知》).

The Exclusive Business Cooperation Agreement is for an initial term of 10 years and may be extended by Khorgos Entertainment for another term of 10 years upon expiration as determined by it. During the term of the Exclusive Business Cooperation Agreement, without the prior written consent of Khorgos Entertainment, Dinglian Technology shall not accept the same or similar services from or establish a cooperation relationship with any third party for any such service or relationship which is contemplated under or otherwise covered in the Exclusive Business Cooperation Agreement. Khorgos Entertainment may appoint other parties for the provision of services under the Exclusive Business Cooperation Agreement.

The Exclusive Business Cooperation Agreement shall remain effective unless terminated (i) in accordance with the terms of the Exclusive Business Cooperation Agreement, (ii) when all of the purchased equity interests and/or acquired assets of Dinglian Technology have been transferred to Khorgos Entertainment (or its designee) in accordance with the Exclusive Option Agreement, (iii) in the event that Khorgos Entertainment or its subsidiaries are allowed to conduct the prohibited business that Dinglian Technology operates under the then current PRC laws and regulations, or (iv) in writing by Khorgos Entertainment.

### *Share Pledge Agreement*

Dinglian Technology, the Registered Shareholders and Khorgos Entertainment entered into a share pledge agreement on 7 November 2018 (the "**Share Pledge Agreement**"). Under the Share Pledge Agreement, the Registered Shareholders pledged all of their respective equity interests in Dinglian Technology to Khorgos Entertainment as collateral security for all of Dinglian Technology's payments due to Khorgos Entertainment and to secure performance of all obligations of Dinglian Technology and the Registered Shareholders under the Contractual Arrangements. During the pledge period, Khorgos Entertainment is entitled to receive any dividend or other distributable benefit arising from the equity interests in Dinglian Technology held by the Registered Shareholders. The Share Pledge Agreement will not terminate until: (i) all obligations of Dinglian Technology and the Registered Shareholders owed to Khorgos Entertainment are satisfied in full; (ii) Khorgos Entertainment (or its designee) exercises its exclusive options to purchase the entire equity interests in Dinglian Technology held by the Registered Shareholders and/or the entire assets of Dinglian Technology pursuant to the terms of the Exclusive Option Agreement when it is permitted to do so under the applicable PRC laws and regulations, and

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Khorgos Entertainment (or its designee) is permitted by law to carry on businesses that Dinglian Technology operates; (iii) Khorgos Entertainment exercises its unilateral right of termination; or (iv) the agreement is required to be terminated in accordance with applicable PRC laws and regulations.

In addition, under the Exclusive Option Agreement, none of the Registered Shareholders may transfer or permit the encumbrance of any of his equity interests in Dinglian Technology without Khorgos Entertainment's prior written consent. Furthermore, under the Exclusive Business Cooperation Agreement, directors, legal representatives, general managers, financial controllers and other senior management recommended by Khorgos Entertainment and appointed by Dinglian Technology in accordance with legal procedures are entitled to retain and exercise physical control of company seals and certificates that are crucial to the daily operations of Dinglian Technology, which further strengthens the protection of Khorgos Entertainment's interests over Dinglian Technology under the Contractual Arrangements.

Should an event of default (as provided in the Share Pledge Agreement) occur, unless it is successfully resolved to Khorgos Entertainment's satisfaction within 30 days of notice, Khorgos Entertainment may demand that the Registered Shareholders or Dinglian Technology immediately pay all outstanding payments due under the Exclusive Business Cooperation Agreement, repay any loans and make all other payments due to it and/or dispose of the pledged equity interests to repay any outstanding payments due to Khorgos Entertainment. On 13 February 2019, Dinglian Technology completed the registration of the pledge of equity interest under the Share Pledge Agreement with the relevant Administration for Industry and Commerce of the PRC.

### *Shareholders' Rights Entrustment Agreement and the Powers of Attorney*

Dinglian Technology, the Registered Shareholders and Khorgos Entertainment have entered into a shareholders' rights entrustment agreement on 7 November 2018 (the "**Shareholders' Rights Entrustment Agreement**"), and each of the Registered Shareholders has executed an irrevocable power of attorney on 7 November 2018 (the "**Powers of Attorney**") to irrevocably appoint Khorgos Entertainment, or any person designated by it, as its exclusive agent and attorney-in-fact to act on its behalf on all matters concerning Dinglian Technology and to exercise all of its rights as a Registered Shareholder in accordance with the applicable PRC laws and regulations and the articles of association of Dinglian Technology.

These rights include: (i) the right to propose, convene and attend shareholders' meetings and pass any shareholders' resolutions; (ii) the right to sell, transfer, pledge or dispose of shares; (iii) the right to exercise shareholders' voting rights; and (iv) the right to appoint and replace the legal representative (chairperson), the director, supervisor, the general manager and other senior management members of Dinglian Technology. Khorgos Entertainment (or its designee) is entitled to sign minutes, file documents with the relevant authorities and exercise voting rights on the winding up of Dinglian Technology on behalf of the Registered Shareholders. The Registered Shareholders have each undertaken to transfer all assets obtained after the winding up of Dinglian Technology to Khorgos Entertainment at nil consideration or the lowest price allowed under the PRC laws and regulations at the time of transfer, the total amount of which will be returned by the Registered Shareholders to Khorgos Entertainment. The Shareholders' Rights Entrustment Agreement and the Powers of Attorney shall be irrevocable and remain effective unless terminated: (i) when it is permissible under the PRC laws and regulations for Khorgos Dinglian (or its designee) to directly hold the equity interests in Dinglian Technology and engage in the business that Dinglian Technology operates, and Khorgos Dinglian (or its designee) is formally registered as the sole shareholder of Dinglian Technology; (ii) when Khorgos Dinglian (or its designee) has purchased all the assets of Dinglian Technology in accordance with the provisions of the Exclusive Option Agreement and conducted business which Dinglian Technology operates using such assets; and

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(iii) when the shareholding structure of Dinglian Technology has changed and the Shareholders' Right Entrustment Agreement has been superseded by a new agreement signed by the shareholders of Dinglian Technology. As a result of the Shareholders' Rights Entrustment Agreement and the Powers of Attorney, our Company, through Khorgos Entertainment, is able to exercise management control over the activities that most significantly impact the economic performance of the PRC Operating Entities.

### *Spouse Undertaking*

The spouse of each of the Registered Shareholders, where applicable, has signed the spouse undertaking on 7 November 2018 (the "**Spouse Undertaking**"). Under the Spouse Undertaking, each of the spouses unconditionally and irrevocably undertakes that:

- (i) the spouse has been made fully aware of the Contractual Arrangements and consented to the execution of the Contractual Arrangements by such Registered Shareholder;
- (ii) all of the equity interests held by such Registered Shareholder in Dinglian Technology shall be deemed as assets solely owned by such Registered Shareholder and that she/he will not claim any equity interest in Dinglian Technology;
- (iii) no claims or actions against the Contractual Arrangements will be taken by the spouse and that she/he will take all necessary actions to ensure the proper performance of the Contractual Arrangements; and
- (iv) in the event that the spouse obtains any interests in Dinglian Technology, she/he will be subject to and abide by the terms of the Contractual Arrangements as if she/he were a signing party to such Contractual Arrangements, and at the request of Khorgos Entertainment she/he will sign any documents in form and substance consistent with the Contractual Arrangements.

Our PRC Legal Advisers are of the view that (i) the above arrangements provide protection to our Group even in the event of death or divorce of any Relevant Shareholder, and (ii) the death or divorce of any Relevant Shareholder would not affect the validity of the Contractual Arrangements and that Khorgos Entertainment or our Company can still enforce their rights under the Contractual Arrangements against the Registered Shareholders.

### *Dispute resolution*

Each of the Contractual Arrangements stipulates that the parties shall negotiate in good faith to resolve the dispute in the event of any dispute with respect to the construction and performance of the provisions. In the event the parties fail to reach an agreement on the resolution of such a dispute within 30 days after any party's request for resolution of the dispute through negotiations, any party may submit the relevant dispute to the China International Economic and Trade Arbitration Commission (中國國際經濟貿易仲裁委員會) for arbitration, in accordance with the then effective arbitration rules. The arbitration shall be conducted in Beijing, and the language used during arbitration shall be Chinese. The arbitration ruling shall be final and binding on all parties. Any party shall have the right to apply to the courts with competent jurisdiction for enforcement of arbitration rulings after the arbitration rulings come into force.

The provisions set out in the Contractual Arrangements also provide that the arbitral tribunal may award remedies over the shares or assets of Dinglian Technology, injunctive relief (such as an injunction against carrying out business activities or to compel the transfer of assets) or order the winding up of Dinglian Technology, and the courts of Hong Kong and the Cayman Islands (being the place of

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incorporation of our Company) also have jurisdiction for the grant and/or enforcement of the arbitral award and the interim remedies against the shares or properties of Dinglian Technology.

However, our PRC Legal Advisers have advised that the tribunal normally would not grant such kind of injunctive relief or winding up order of Dinglian Technology under the PRC laws and regulations. For instance, the arbitral tribunal has no power to grant such injunctive relief, nor will it be able to order the winding up of Dinglian Technology pursuant to the current PRC laws and regulations. In addition, interim remedies or enforcement order granted by overseas courts such as Hong Kong and the Cayman Islands may not be recognisable or enforceable in the PRC.

As a result of the above, in the event that Dinglian Technology 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 PRC Operating Entities and conduct our business could be materially and adversely affected. See “Risk factors — Risks relating to our corporate structure” in this prospectus for details.

### *Succession*

The provisions set out in the Contractual Arrangements are also binding on the successors of the Registered Shareholders as if the successor were a signing party to the Contractual Arrangements. Although the Contractual Arrangements do not specify the identity of successors to such Registered Shareholders, under the succession law of the PRC, the statutory successors include the spouse, children, parents, brothers, sisters, paternal grandparents and maternal grandparents, and any breach by the successors would be deemed to be a breach of the Contractual Arrangements. Pursuant to the Contractual Arrangements, any heir of a Registered Shareholder shall inherit any and all rights and obligations of the Registered Shareholder under the Contractual Arrangements as a result of his death, incapacity or any other circumstances affecting his exercise of rights as a Registered Shareholder, as if the heir were a signing party to such Contractual Arrangements.

According to the Exclusive Option Agreement, each of the Registered Shareholders has undertaken that, in the event of death, incapacity or any other event which causes the inability of the Registered Shareholder to perform his/her day-to-day obligations, his/her heir (or the then registered shareholder or transferee of his/her equity interests) shall assume all rights and obligations under the Exclusive Option Agreement and shall transfer all of the equity interests in Dinglian Technology to Khorgos Entertainment (or its designee) under applicable PRC laws and regulations. The undertaking further provides that the Registered Shareholder has taken appropriate actions to ensure his/her heirs, creditors and spouse would not obstruct his/her exercise of rights as a shareholder of Dinglian Technology or his/her performance under the Exclusive Option Agreement in any circumstances.

In addition, the spouse of each of the Registered Shareholders, if applicable, has provided irrevocable undertakings which stipulate certain matters to succession of the rights and obligations under the Contractual Arrangements. See “Summary of the agreements under the Contractual Arrangements and other key terms thereunder — Spouse Undertaking” in this section for details.

Therefore, our PRC Legal Advisers are of the view that: (i) the Contractual Arrangements provide protection to our Group even in the event of death, incapacity, bankruptcy, marriage or divorce of the Registered Shareholders; and (ii) any such circumstances would not affect the validity of the Contractual Arrangements, and Khorgos Entertainment can enforce its rights under the Contractual Arrangements against the successors of such Registered Shareholders.

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### *Arrangements to address potential conflicts of interests*

Each of the Registered Shareholders has undertaken in the Exclusive Option Agreement and the Shareholders' Rights Entrustment Agreement that, during the period that the Contractual Arrangements remain effective:

- (i) unless otherwise agreed to by Khorgos Entertainment in writing, the Registered Shareholder would not, directly or indirectly participate in, be interested in, engage in or be employed by any business which is or may potentially be in competition with the businesses of Dinglian Technology or any of its affiliates, save and except when his/her interest in such equity do not exceed 10%; and
- (ii) any of his/her actions or omissions would not lead to any conflict of interest between him and Khorgos Entertainment (including but not limited to its shareholders). Furthermore, in the event of the occurrence of a conflict of interests (where Khorgos Entertainment has the sole absolute discretion to determine whether such conflict arises), he/she agrees to take any appropriate actions as approved by Khorgos Entertainment.

### *Loss sharing*

Dinglian Technology is a limited liability company and shall be solely liable for its own debts and losses with assets and properties owned by it. Under the applicable PRC laws and regulations, our Company or Khorgos Entertainment is not legally required to share the losses of Dinglian Technology or provide financial support to Dinglian Technology. Despite the foregoing, given that our Group conducts its business in the PRC through the PRC Operating Entities, which hold the requisite PRC licences and approvals, and that the PRC Operating Entities' financial condition and results of operations are consolidated into our Group's financial condition and results of operations under the applicable accounting principles, our Company's business, financial condition and results of operations would be adversely affected if the PRC Operating Entities suffer losses.

However, as provided in the Exclusive Option Agreement, without the prior written consent of Khorgos Entertainment, Dinglian Technology shall not, among others: (i) sell, transfer, pledge, encumber or dispose of any of its assets, business or economic rights in any manner; (ii) execute any contract, except those in the ordinary course of business or entered into with our Company or any subsidiary of our Company; (iii) merge, consolidate with, acquire or invest in any entity; (iv) provide any loan, credit or guarantee in any form to any party, or allow any party to create any security interest on its assets or equity; (v) incur, inherit, guarantee or allow any debt that is not incurred in the ordinary course of business; and (vi) increase or reduce its registered capital, or alter the structure of the registered capital in any way. Therefore, due to the relevant restrictive provisions in the agreements, the potential adverse effect on Khorgos Entertainment and our Company in the event of any loss suffered from the PRC Operating Entities can be limited to a certain extent.

### *Liquidation*

Pursuant to the Exclusive Option Agreement, in the event of a mandatory liquidation required by PRC laws and regulations, Dinglian Technology shall sell all of its assets through a non-reciprocal transfer to Khorgos Entertainment or another qualifying entity designated by Khorgos Entertainment to the extent permitted by PRC laws and regulations, at the lowest selling price permitted by the applicable PRC laws and regulations. Any obligation of Khorgos Entertainment to pay Dinglian Technology as a result of such transaction shall be waived by Dinglian Technology, and any proceeds from such transaction shall be paid to Khorgos Entertainment or the qualifying entity designated by Khorgos

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Entertainment in partial satisfaction of the service fees under the Exclusive Business Cooperation Agreement, as applicable under the then current PRC laws and regulations. Accordingly, in a winding up of Dinglian Technology, a liquidator may seize the assets of Dinglian Technology through Khorgos Entertainment based on the Contractual Arrangements for the benefit of our Company's creditors/Shareholders.

### ***Termination***

Pursuant to the Contractual Arrangements, Khorgos Entertainment has the unilateral right to terminate these agreements at any time by providing written notice to the Registered Shareholders and/or Dinglian Technology. The Contractual Arrangements shall terminate once Khorgos Entertainment holds the entire equity interests in and/or the entire assets of Dinglian Technology in the event that Khorgos Entertainment or its subsidiaries are allowed to conduct the relevant business that Dinglian Technology operates under the then current PRC laws and regulations.

### ***Insurance***

Our Company does not maintain an insurance policy to cover risks relating to the Contractual Arrangements.

### ***Company's confirmation***

As at the Latest Practicable Date, our Company had not encountered any interference or encumbrance from any PRC governing bodies in operating its business through the PRC Operating Entities under the Contractual Arrangements.

## **LEGALITY OF THE CONTRACTUAL ARRANGEMENTS**

Khorgos Entertainment's right to deal with the pledged equity interest in Dinglian Technology under the Share Pledge Agreement and its option to acquire the equity interest in and/or the assets of Dinglian Technology under the Exclusive Option Agreement are confined to be carried out in a manner as permitted by the relevant PRC laws and regulations. Based on the above, our PRC Legal Advisers are of the opinion that the Contractual Arrangements are narrowly tailored to achieve our business objective and to minimise the potential conflict with relevant PRC laws and regulations.

Our PRC Legal Advisers are also of the opinion that:

- (i) each of Khorgos Entertainment and Dinglian Technology is an independent legal entity which is duly established, and each of their respective establishments is valid, effective and complies with the relevant PRC laws and regulations;
- (ii) each of the PRC Operating Entities has also obtained all material approvals and licences and has the capacity to carry out business operations in accordance with its licences and approvals;
- (iii) each of the agreements under the Contractual Arrangements is legal, valid and binding on the parties thereto;
- (iv) each of the agreements under the Contractual Arrangements does not violate any provisions of the articles of association of the PRC Operating Entities;
- (v) the Contractual Arrangements do not require any approval from the PRC governmental authorities, except that the pledges under the Share Pledge Agreement are subject to

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registration requirement with the relevant Administration of Industry and Commerce of the PRC, which was completed in February 2019;

- (vi) no approval or confirmation on the validity and legality of the agreements under the Contractual Arrangements is required from any authorities in the PRC; and
- (vii) the Contractual Arrangements are in compliance with and enforceable under applicable PRC laws and regulations, except that the Contractual Arrangements provide that the arbitral body may award remedies over the shares and/or assets of Dinglian Technology, injunctive relief and/or winding up of Dinglian Technology, and that courts of competent jurisdictions are empowered to grant interim remedies in support of the arbitration pending the formation of an arbitral tribunal, while under PRC laws and regulations, an arbitral body has no power to grant injunctive relief and may not directly issue a provisional or final liquidation order for the purpose of protecting assets of or equity interests in Dinglian Technology in case of disputes. In addition, interim remedies or enforcement orders granted by overseas courts such as Hong Kong and the Cayman Islands may not be recognisable or enforceable in the PRC.

Notwithstanding the foregoing, our PRC Legal Advisers and the PRC Legal Advisers to the Sole Sponsor conducted an interview with the Communication Administration of Guangxi Zhuang Autonomous Region on 3 April 2019, an interview with the Department of Culture of Guangxi Zhuang Autonomous Region on 25 January 2019 and an interview with the Press and Publication Bureau of Guangxi Zhuang Autonomous Region (廣西壯族自治區新聞出版局) on 25 January 2019 in respect of our Contractual Arrangements, all of which confirmed that: (i) the Contractual Arrangements are not subject to any approvals from them; and (ii) the execution of the Contractual Arrangements is not subject to any penalties.

In accordance with Article 3 of Online Game Measures and Article 2 of the Circular of State Commission Office of Public Sectors Reform (“SCOPSR”) on the Issuance of the Interpretation by the SCOPSR of Some Provisions Concerning the Comprehensive Law Enforcement of Animation, Online Games and Cultural Market in the “Regulation on Three Provisions” jointly promulgated by the MOC, the State Administration of Radio Film and Television (the “SARFT”) and the General Administration of Press and Publication (the “GAPP”) (《中央機構編制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》) (the “**Interpretation**”) issued by the State Commission Office for Public Sector Reform (a division of the State Council) effective from 7 September 2009, the MOC was the competent government authority for the administration of online games in the PRC. Articles 6 and 7 of Online Game Measures provide that a company engaged in online game business shall be equipped with certain conditions.

On 28 September 2009, the GAPP, together with the State Copyright Administration and National Anti-Pornography and Anti-Illegal Publications Working Group Office, jointly issued the GAPP Notice. Article 4 of the GAPP Notice provides that foreign investors are not permitted to invest or engage in online game operations in China through wholly-owned subsidiaries, equity joint ventures or cooperative joint ventures, and it expressly prohibits foreign investors from gaining control over or participating in domestic online game operations indirectly by establishing joint venture companies, establishing contractual arrangements or providing technical support.



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Our PRC Legal Advisers interviewed the Press and Publication Bureau of Guangxi Zhuang Autonomous Region and the Department of Culture of Guangxi Zhuang Autonomous Region on 25 January 2019 in respect of our Contractual Arrangements. Based on the interview, our PRC Legal Advisers are of the view that the adoption of the Contractual Arrangements does not constitute a breach or violation of the GAPP Notice based on the following reasons:

- (i) according to the Regulation on the Main Functions, Internal Organisation and Staffing of the GAPP issued by the General Office of the State Council on 11 July 2008, the GAPP is authorised to review and approve publication of online games before launch on the Internet, while the MOC was authorised to administer and regulate the overall online gaming industry;
- (ii) according to the Interpretation, after an online game is launched on the Internet, the MOC had the sole regulatory authority, and even if an online game is launched on the Internet without the prior approval of the GAPP, the MOC (instead of the GAPP) had the direct authority for investigation and enforcement;
- (iii) the Press and Publication Bureau of Guangxi Zhuang Autonomous Region confirmed to our PRC Legal Advisers during an interview on 25 January 2019 that: (a) it is the Department of Culture of Guangxi Zhuang Autonomous Region that was responsible for administering circulation and operation of online games and it deferred to opinions of such department; and (b) no approval from it is required for the listing of the Shares on the Stock Exchange; and
- (iv) the Department of Culture of Guangxi Zhuang Autonomous Region confirmed to our PRC Legal Advisers, during an interview on 25 January 2019 that: (a) the Contractual Arrangements are not subject to any confirmation or approval by or registration with it; and (b) they have no objection to the Contractual Arrangements.

Please see “Risk factors — Risks relating to our corporate structure — If the PRC government finds that the agreements that establish the structure for operating our online game businesses in China do not comply with applicable PRC laws and regulations, or if these regulations or their interpretations change in the future, we could be subject to severe consequences, including the nullification of the Contractual Arrangements and the relinquishment of our interest in our VIE” in this prospectus.

Based on the above analysis and advice from our PRC Legal Advisers, our Directors are of the view that the Contractual Arrangements are not likely to be challenged by the relevant authorities in the PRC. Our PRC Legal Advisers are of the view that the Communication Administration of Guangxi Zhuang Autonomous region, the Department of Culture of Guangxi Zhuang Autonomous Region and the Press and Publication Bureau of Guangxi Zhuang Autonomous Region and the personnel consulted in the interviews are competent to make the abovementioned oral confirmation.

We are also advised by our PRC Legal Advisers that the transfer of economic benefits from Dinglian Technology to Khorgos Entertainment and the pledging of the entire equity interest in Dinglian Technology to Khorgos Entertainment under the Contractual Arrangements are not in violation of the relevant PRC laws and regulations.

We are aware that there were a Supreme People’s Court ruling made in October 2012 and arbitral decisions from the Shanghai International Arbitration Center made in 2010 and 2011 have invalidated certain contractual agreements which were deemed to be for the intention of circumventing foreign investment restrictions in the PRC, holding that the agreements violated the prohibition against

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“concealing an illegitimate purpose under the guise of legitimate acts” set out in Article 52 of the PRC Contract Law and the General Principles of the PRC Civil Law. It has been further reported that these court rulings and arbitral decisions may increase (i) the possibility of the PRC courts and/or arbitration panels taking similar actions against contractual structures commonly adopted by foreign investors to engage in restricted businesses in the PRC, and (ii) the incentive for shareholders of PRC operational entities under such contractual structures to renege on their contractual obligations.

Pursuant to Article 52 of the PRC Contract Law, a contract is void under any of the following five circumstances: (i) the contract is concluded through the use of fraud or coercion by one party and thereby damages the interest of the State; (ii) malicious collusion is conducted to damage the interest of the State, a collective unit or a third party; (iii) the contract damages the public interest; (iv) an illegitimate purpose is concealed under the guise of legitimate acts; and (v) the contract violates the mandatory provisions of the laws and administrative regulations. Our PRC Legal Advisers are of the view that the relevant terms of our Contractual Arrangements do not fall within any of the aforementioned circumstances and, in particular, would not be deemed as “concealing an illegitimate purpose under the guise of legitimate acts” under Article 52 of the PRC Contract Law.

Please see “Business — Legal proceedings and compliance” in this prospectus for details of the compliance history of our Group.

Given that the Contractual Arrangements will constitute non-exempt continuing connected transactions of our Company, a waiver has been sought from and has been granted by the Stock Exchange, details of which are disclosed in “Connected transactions” in this prospectus.

### ACCOUNTING ASPECTS OF THE CONTRACTUAL ARRANGEMENTS

#### **Consolidation of financial results of the PRC Operating Entities**

According to IFRS 10 — Consolidated Financial Statements, a subsidiary is an entity that is controlled by another entity (known as the parent). An investor controls an investee when it is exposed, or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Although our Company does not directly or indirectly own the PRC Operating Entities, the Contractual Arrangements as mentioned above enable our Company to exercise control over the PRC Operating Entities.

Under the Exclusive Business Cooperation Agreement, it was agreed that, in consideration of the services provided by Khorgos Entertainment, Dinglian Technology will pay annual service fees to Khorgos Entertainment. The service fee, subject to Khorgos Entertainment’s adjustment at its sole discretion, is equal to profit before tax of Dinglian Technology and may also include retained losses of Dinglian Technology from previous financial year(s) (if any), after deduction of necessary costs, expenses, taxes and other statutory contribution in relation to the respective financial year. Khorgos Entertainment may allow Dinglian Technology to retain sufficient working capital to avoid financial difficulties. Dinglian Technology shall allow Khorgos Entertainment or Khorgos Entertainment’s designated auditor to review and copy its management accounts and operating statistics upon Khorgos Entertainment’s request. Accordingly, Khorgos Entertainment has the ability to extract substantially all of the economic benefit of Dinglian Technology through the Exclusive Business Cooperation Agreement.

In addition, under the Exclusive Option Agreement, Dinglian Technology is not allowed to make any distribution to the Registered Shareholders.

Further, under the Powers of Attorney, Khorgos Entertainment assumes all rights as shareholder and exercises control over Dinglian Technology, including the right to propose, convene and attend

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shareholders' meetings, the right to sell, transfer, pledge or dispose of shares, the right to exercise shareholders' voting rights and to appoint the legal representative (chairperson), the director, supervisor, the general manager and other senior management members of Dinglian Technology. As a result of these agreements, our Company has obtained control of the PRC Operating Entities through Khorgos Entertainment and can receive substantially all of the economic returns generated by the PRC Operating Entities. Accordingly, the PRC Operating Entities' results of operations, assets and liabilities, and cash flows are consolidated into our Company's financial statements.

The financial results of the PRC Operating Entities are consolidated into our Group's financial information as if they were our Group's subsidiaries and are included in the Accountants' Report in Appendix I to this prospectus.

### **Enterprise income tax and value added tax**

Upon the entering of the Contractual Arrangements on 7 November 2018, the service fee to be paid by Dinglian Technology to Khorgos Entertainment in each financial year (“**Service income**”) under the Exclusive Business Cooperation Agreement is subject to tax exposure of enterprise income tax (“**EIT**”) and value added tax (“**VAT**”). However, our Group as a whole would not be expected to incur additional EIT and VAT since the tax burden in connection with such service income charging at Khorgos Entertainment or Dinglian Technology will be indifferent based on the applicable tax rates. Nonetheless, our Group's tax position and exposure in connection with our Group's Contractual Arrangements is subject to scrutiny or tax adjustment by relevant tax authorities. See “Risk Factors — The Contractual Arrangements between Khorgos Entertainment and Dinglian Technology may be subject to scrutiny by the PRC tax authorities and any finding that we or Dinglian Technology owe additional taxes could substantially reduce our consolidated net income and the value of your investment” for details.

## **LEGAL DEVELOPMENT IN THE PRC REGARDING FOREIGN INVESTMENT**

### **Background of the new Foreign Investment Law**

On 15 March 2019, the National People's Congress of the PRC adopted the Foreign Investment Law, which came into effect on 1 January 2020. Since its coming into effect, the Foreign Investment Law has replaced the Sino-Foreign Equity Joint Venture Enterprise Law (《中外合資經營企業法》), the Sino-Foreign Cooperative Joint Venture Enterprise Law (《中外合作經營企業法》) and the Wholly Foreign-Invested Enterprise Law (《外資企業法》) to become the legal foundation for foreign investment in the PRC.

### **Impact and potential consequences of the new Foreign Investment Law on our Contractual Arrangements**

Conducting operations through contractual arrangements has been adopted by many PRC-based companies, including us, to obtain and maintain necessary licences and permits in the industries that are currently subject to foreign investment restrictions or prohibitions in China. As advised by our PRC Legal Advisers, the Foreign Investment Law does not explicitly incorporate contractual arrangements as a form of foreign investment, and our Contractual Arrangements as a whole and each of the agreements comprising our Contractual Arrangements will not be affected and will continue to be legal, valid and binding on the parties.

The online publishing and operation of mobile game businesses are currently on the Negative List. If such businesses are no longer on the Negative List and if our Group can legally operate the businesses under the applicable PRC laws and regulations, Khorgos Entertainment will exercise the exclusive option

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under the Exclusive Option Agreement to acquire the equity interests in Dinglian Technology and terminate our Contractual Arrangements, subject to re-approval by the relevant authorities.

### **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 of 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 as and when they arise;
- (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; and
- (4) our Company will engage external legal advisers or other professional advisers, if necessary, to assist the Board to review the implementation of the Contractual Arrangements and the legal compliance of Khorgos Entertainment and our PRC Operating Entities to deal with specific issues or matters arising from the Contractual Arrangements.

## OVERVIEW

We are an integrated game publisher and developer in China with a focus on publishing mobile games in the market of China. We are committed to bringing quality and interactive gameplay experience to game players by drawing upon our experience and expertise in the mobile game industry together with our sound understanding with our publishing partners and game players gained over the years of our operations to develop and publish high-quality and well-customised mobile games. Our Group first commenced its business in 2014 engaging in the sales of computers, computer accessories and electronic products, as well as the development of software and websites in China. We expanded our game development business and started to develop mobile games since 2015 and further tap into mobile games publishing business in 2016, where third party publishers engage us as co-publisher to provide publishing services for mobile games developed by third party game developers. As a co-publisher, instead of acting as a main publisher, we act as a sub-contractor to the third party publishers to co-publish the third party games. In 2018, we also began to publish our self-developed games as the main publisher.

We believe our success is attributable to our strong capabilities and experience gained from the publishing and development of well-received games. During the Track Record Period, we have developed and published games in various genres including RPG, SLG and casual games.

As a game publisher, we (i) offer publishing services to our publishing partners for third party games; and (ii) publish our self-developed games. For co-publishing of third party games, we normally provide marketing, promotional, distribution and coordination services to third party publishers as co-publisher and assist them to publish their games on various distribution channels, where we may sometimes obtain exclusive rights from third party publishers to promote and publish games on designated distribution channels. For certain games, we would also publish and distribute the games on our self-operated platform and be responsible for user related services including user log-in, top-up and payment services. As co-publisher of third party games, we work and negotiate directly with the upstream third party publishers and do not collaborate with the mobile game developers or other publishing service providers engaged by the third party publishers. Occasionally, we would subcontract some of our co-publishing responsibilities to our downstream third party publishing partners depending on the publishing work scope and our available resources. During the Track Record Period, we have co-published over 320 third party games through third party distribution channels and our self-operated platform as co-publisher, and published two games developed by our in-house development team. For publishing of our self-developed games, we enjoy all the proprietary rights of the games and are primarily responsible for publishing or arranging various publishing services, and would often engage downstream third party publishing partners to be responsible for certain parts of the publishing of the games. We collaborate with these third party publishing partners to formulate the publishing work scope and the respective revenue sharing arrangement. For further details on our game publishing business, see “Game publishing” in this section.

In addition to game publishing, we have also engaged in development and sales of customised software and games. Since the commencement of our mobile game development in 2015 and up to the Latest Practicable Date, we had developed 22 proprietary games mainly in the RPG and casual games genres. During the Track Record Period, we have sold one of our self-developed games to a third party game developer and publisher, and published two of our self-developed games. We launched an additional self-developed game in February 2020. As at the Latest Practicable Date, all of the three self-developed games were still in operation. We target to launch five self-developed games in each of 2021 and 2022 subject to approval of relevant governmental authorities. In addition to direct sales of our self-developed games, we would also be commissioned by third party game developers and publishers to develop customised software or modify certain third party game contents.

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We experienced steady growth in terms of revenue during the Track Record Period primarily due to our ability to co-publish an extensive portfolio of mobile games covering a wide range of games genres and our success in launching two self-developed games in 2018. Our initial success in publishing third party casual games as co-publisher in 2016 has led us to further place our business direction and focus in co-publishing third party games in the Track Record Period. By increasing capital contribution to our Group, accumulating and utilising financial resources we generated through our operations, and expanding extensively the size of our publishing team, we were able to establish solid partnerships with different third party publishers and significantly increased the number and genre coverage of third party games we co-published since FY2017. Our revenue increased from RMB107.3 million for FY2017 to RMB151.2 million for FY2018, and further increased to RMB187.7 million for FY2019, representing a CAGR of 32.3%. Our profit for FY2017, FY2018 and FY2019 amounted to RMB31.5 million, RMB39.4 million and RMB50.5 million, respectively, representing a CAGR of 26.6%.

### COMPETITIVE STRENGTHS

We believe that the following competitive strengths of our Company have contributed to our success.

#### **Publishing of an extensive portfolio of games and successful partnerships with a significant number of publishers**

Our publishing team, led by Mr. Li Tao, consisted of 52 employees as at the Latest Practicable Date, five of whom had more than five years of experience in the mobile game industry. During the Track Record Period, our publishing team has co-published over 320 third party games of various game genres, including RPG, SLG, casual games and others. With our business practice of co-publishing an extensive game portfolio of mobile games with wide coverage of game genres, we enjoy the flexibility to select and focus on co-publishing third party games with relatively higher profitability and cease to publish games which do not meet our expected market reception, which in turn will diversify and mitigate our risk and generate stable revenue in our game publishing business.

During the Track Record Period, we have successfully established partnerships with more than 120 mobile game publishing partners including third party publishers as our sources of third party games and third party publishing service providers for providing various types of publishing services to us. We believe such partnerships have contributed to the growth of our game publishing business with a growing portfolio of published games. According to the CIC Report, leading mobile game developers and publishers usually have a high standard for choosing their publishing partners, and only a limited number of them with extensive experience will be selected. Our well-established partnerships with game publishing partners will also enable us to have more business opportunities in our future operations to drive sustainable growth.

#### **An integrated major mobile game publisher and developer in China**

While we continue to generate growing revenue from our game publishing business, we are also committed to devote our resources to our development team to develop our self-developed games and we had developed 22 mobile games since the commencement of our mobile game development in 2015 and up to the Latest Practicable Date. In addition to providing publishing services to third-party publishers as co-publisher for their third party mobile games, we have also published two of our self-developed proprietary games, namely Hollow Storm\* (虛空風暴) and Princess in Distress\* (公主遇險記) during the Track Record Period and launched one self-developed game, namely Stratagem in the Three Kingdoms\* (醉計三國) in February 2020.

By publishing our self-developed proprietary games as an integrated game publisher and developer, it is our strategy to (i) diversify our sources of revenue and maximise profit in the value chain of the mobile game industry through taking up multiple roles and hence more shares in the total gross billings from game users; (ii) extend game lifecycle as we could test and optimise our self-developed games at the same time while we publish the games and improve the game life span; (iii) receive on-time user feedback from players and respond promptly to users' needs thereby enhancing our game quality; and (iv) increase the efficiency of game publishing as having the ability to publish self-developed games actively expedites the process in which the game is published to the market and saves communication cost between developers and publishers.

#### **Possession of game development capabilities and talents**

We believe that our experience and proficiency in identifying and targeting potential users, converting active users into paying users, and responding keenly to industry changes and user behaviour patterns help promote our games developed in-house. In respect of our game development capabilities, our development team consisted of 62 employees as at the Latest Practicable Date, 15 of whom had more than five years of experience in the mobile game industry. With the help of our game development talents, we have successfully proven our game development capability with the publishing of our self-developed game Hollow Storm\* (虛空風暴), which successfully recorded an MAU of more than 1.2 million and monthly gross billings of RMB13.2 million in September 2018, two months since the launching of the game in July 2018. In addition, our strong game development capability is also reflected in the sales of one of our self-developed games to a third party game developer and publisher and the success in publishing three of our self-developed games during the Track Record Period and up to the Latest Practicable Date.

#### **Management team with extensive experience in the mobile game industry**

With years of operations as publisher in the mobile game industry in China, most of our management team had gained extensive experience.

Mr. Sui, the Chairman of our Board and our executive Director, joined our Group in August 2015. Prior to joining our Group, Mr. Sui has gained insights in the gaming industry through contacts with various technology and gaming related companies. He was awarded the Top Ten Outstanding Entrepreneurs in the Gaming Industry\* (遊戲行業十大優秀企業家) and the Top Ten Innovative Characters in the Gaming Industry\* (遊戲行業十大創新人物) in November 2017, both jointly issued by the China Enterprise Development Association (中國企業發展協會) and the Whole Country Brand Authentication Alliance (全國品牌認證聯盟).

Mr. Li, our executive Director, is one of the founders of our Group and has over 12 years of experience in the technology industry. Prior to joining our Group, he was principally engaged in software development, overall construction and maintenance of the company network, technical training and personnel management.

Mr. Li Tao, our chief executive officer, joined our Group in 2017. He has over 14 years of experience in the marketing industry, where he gained exposure to the gaming field and management of technology companies.

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For further details of Mr. Sui, Mr. Li and Mr. Li Tao, see “Directors and senior management” in this prospectus.

With the experience of our senior management team, we are able to be more player-oriented and innovative to meet the ever changing demand from players.

We consider that our management team’s industry experience is the key driving force to our current success as game publisher and developer and believe that they will continue to employ their knowledge to manage our business. Under their leadership and vision, we aspire to further expand our business in the mobile game industry in China and ensure further sustainable growth.

### BUSINESS STRATEGIES

Our goal is to further develop and strengthen our position in the mobile game development and publishing industry in China. According to the CIC Report, gross billings from publishing self-developed mobile games have increased exponentially from RMB43.5 billion in 2015 to RMB153.8 billion in 2019, and are forecasted to continue growing to RMB382.7 billion in 2024. We aim to capture the rapidly growing mobile game industry in China by expanding our game development capabilities and coverage and increasing the number of our self-developed games that we launch into the market. In addition, with the development of the overall mobile game industry, the market size of the mobile game co-publishing industry also recorded a growth from RMB25.0 billion in 2015 to RMB94.4 billion in 2019 according to the CIC Report. As such, we aim to further strengthen our publishing capabilities by expanding our third party game portfolio and diversify our revenue sources by placing our business focus on both development and publishing of mobile games. We plan to achieve this goal by pursuing the following strategies:

#### **Enhance our game development capabilities and expand our game portfolio**

We will continue to expand our game portfolio to maintain and strengthen our game development capabilities. Our initiatives include the following:

- *Pursue acquisition opportunities with third party game developers.* We plan to selectively acquire qualified game developers in China. We identify the targets of acquisition based on their scale in terms of headcount as well as turnover, technology, and experience in game development. With our plan to enhance our in-house development capability to develop games for sales and publishing, through the integration with newly acquired companies, we could fully utilise the enlarged pool of talents and technology, thereby expand our game portfolio and strengthen our game development capabilities. The acquisition of third party game developers could also enable us to explore new knowhow to develop games in other genres or cross-over games by incorporating features of different game genres, as well as to obtain mature and suitable IPs from the qualified game developers to diversify our game development coverage.
- *Acquire IP licences.* During the Track Record Period and up to the Latest Practicable Date, we have acquired IP licences in respect of 19 fiction and two animation copyrights from independent copyright owners pursuant to which our Group is entitled to develop, publish and operate games based on the licensed copyrights. We will continue to obtain viable licences of IP rights from third parties, including literature, cartoons and popular stickers used in social networks, based on which we seek to develop new games and enhance the appeal of our existing games by incorporating the IP elements.



- *Expand and retain our in-house development team.* We plan to invest in and expand our game publishing and development capabilities by recruiting and retaining talents in our teams. We plan to recruit specialists in a variety of disciplines including user interface, artistic design, level planning and server engineering. In addition, we strive to maintain a collegial work environment and encourage our employees to freely express themselves and communicate with the management in order to cultivate a favourable workplace.
- *Expand our game development facilities.* We plan to expand the capacity of our game development facilities such as setting up new office and acquiring computer equipment to accommodate increasing technical demands for developing games.

### **Strengthen our game publishing capabilities**

We intend to strengthen our publishing capabilities by expanding our publishing team to cater for our increasing operational, commercial and marketing needs. We also plan to acquire and expand the capacity of our facilities to accommodate increasing demand of our publishing business. To be in line with industry trend according to the CIC Report, where leading mobile game co-publishers are seeking the opportunities to acquire other co-publishers in order to possess further competitive advantage and better utilise the resources in the market, we will also continue to explore new publishing partners and pursue acquisition opportunities with third party game publishers with large and diverse user base to better promote our self-developed games and enhance our ability to co-publish third party games. Through acquisition of third party publishing companies, we would be able to (i) rapidly capture and increase our market share in the mobile game industry with enhanced publishing resources and user bases obtained from the target companies; (ii) strengthen and diversify our publishing capability and expertise with the publishing experience of the target companies; and (iii) expediently expand our portfolio of third party games for co-publishing by absorbing the existing game portfolio of the target companies. In addition, we will step up our marketing efforts to promote our brand, platforms and games by, for example, in-game marketing, game fair promotion and purchasing advertising spaces through various advertising agencies. We will also seek to obtain and publish licensed games from third party developers or publishers to strengthen our role in our publishing business.

### **Establish an integrated game distribution platform**

In the long run, we seek to develop an integrated mobile game distribution platform which will enable mobile game developers to develop and upload mobile games, game users to download, share and purchase games, as well as top up and make in-game purchases. The platform is intended to be accessible via a wide array of devices such as personal computers, mobile devices and virtual reality devices.

To encourage creativity and listing of mobile games on our integrated platform, we will develop our own open-source game engine with our game developing knowhow and code library so that prospective game developers can develop and contribute to the development of a game more easily. Our open-source game engine will also be integrated with social networking functions to allow game developers to work in collaboration and share their creative work to our game portfolio. All the games on our platform will be available for download on a free-to-play basis, aiming to acquire a wider audience of players and increase the number of potential paying users through our integrated platform. We will also promote our integrated platform through various online and offline advertising resources including online media marketing and physical advertising spaces in order to acquire new users for our games and our integrated platform. With increasing number of users registering on our integrated platform, we would also achieve significant marketing effect for our brand and our self-developed games which will also be downloadable through the integrated platform. With such an integrated platform in place, we seek to establish a game portfolio of more extensive volume and genres, enlarge our game user base and

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increase user traffic on our self-operated platform, enhance our brand influence in the long run, reduce publishing costs on engaging third party distribution channels and therefore increase the revenue and profitability for our game publishing business. For our self-developed games distributed on our integrated platform, our revenue will be generated from the selling of virtual items to game users where we usually share the gross billings generated from game users with our downstream publishing partners. For co-publishing of third party games, we will be able to increase our revenue sharing from third party publishers with the ability to provide better distribution services through our owned integrated platform.

### **Expand our geographic coverage and build international user base**

During the Track Record Period, our revenue were predominantly generated in China. In 2017, we commenced to provide publishing services as co-publisher to certain games distributed through the iOS App Store in Hong Kong. As part of our strategy to expand our business operations and diversify our market risk, we will further explore business opportunities in markets outside China and our initial expansion would focus on our game publishing and brand promotion in other Asian markets with user populations that are similar in language and gaming culture with the Chinese market. We plan to promote and publish our self-developed games as a game publisher in collaboration with other co-publishers and distribution channels, including the Google Play and the iOS App Store, in these Asian markets. This will enable us to expand the user base of our games to overseas players and increase the gross billings as well as our revenue generated from the games. In addition, with the ability to publish games overseas, we will be able to provide publishing services to third party game developers or publishers in China to co-publish their games in these Asian markets, which in turn will bring in business opportunities in our co-publishing business. For this purpose, we plan to set up offices as well as hire additional staff responsible for the marketing, technical support, business operations and commerce in these areas.

In order to successfully publish our games and promote our brand and our integrated game distribution platform overseas, we will tailor our online and offline marketing strategy according to the characteristics of the local markets. For example, we will publish our promotional materials on popular local social media. We will also enhance our cultural awareness in each of the locales, including their language, religion, usage of mobile devices and payment behaviour, so that culturally appropriate contents can be created when we provide marketing and promotional services outside China.

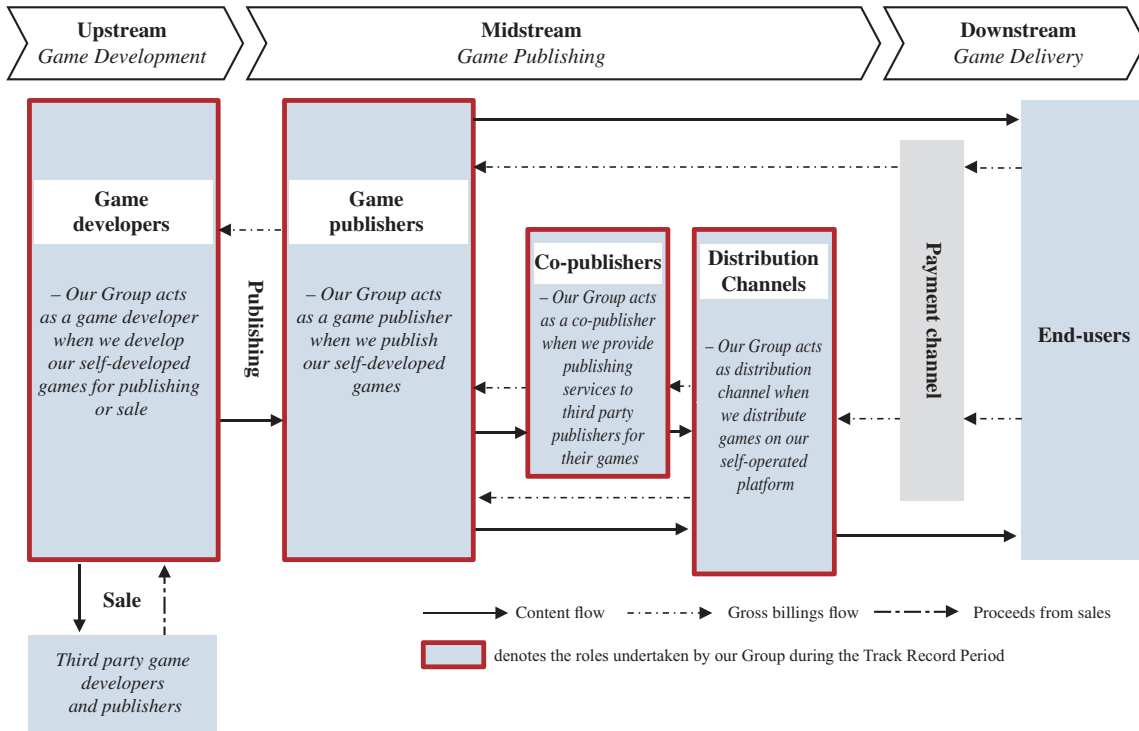
See “Future plans and use of proceeds” in this prospectus for our detailed implementation plan on the use of the net proceeds of the Global Offering to achieve the aforementioned business strategies.

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## OUR BUSINESS MODEL

During the Track Record Period, we principally engaged in mobile game publishing as well as development and sale of customised software and mobile games.

The following chart illustrates the value chain of game development and publishing and the various roles we played in this value chain:



### As game developer

Since 2015, we commenced our development of mobile games and have developed a series of games focusing on the RPG and casual game genres. Up to the Latest Practicable Date, we had developed 22 games and our self-developed games were offered for sale or published by us.

For sale of our self-developed games, we generate revenue by offering games that have been developed in-house to interested purchasers. Such purchasers are normally third party game developers and publishers who see potentials of the games we developed. We also engage in commissioned development where we are commissioned by third party game developers or publishers to develop customised software or certain game contents for some third party games. See “Game development and sales — Sale of our self-developed games and software” below for details. For FY2017, FY2018 and FY2019, the revenue we generated from the development and sales of customised software and games was RMB8.5 million, RMB11.1 million and nil, representing 7.9%, 7.3% and nil of our total revenue, respectively.

During the Track Record Period and up to the Latest Practicable Date, we also published three of our self-developed games. See “Our business model — As game publisher” and “Game publishing — Publishing — Publishing of self-developed games” below for details.

### **As game publisher**

In 2018, we commenced to publish mobile games developed by our in-house development team with our own proprietary titles, namely Hollow Storm\* (虛空風暴) and Princess in Distress\* (公主遇險記) and we were primarily responsible for publishing or arranging publishing services such as marketing, promotion, distribution, monetisation, user support, account registration, payment and other related services. In February 2020, we launched an additional self-developed game, namely Stratagem in the Three Kingdoms\* (醉計三國). We would often engage downstream third party publishing partners including various third party distribution channels to be responsible for certain parts of the publishing including the distribution of games. We collaborate with these third party publishing partners to formulate the publishing work scope and the respective revenue sharing arrangement. See “Our game portfolio — Games in operation” and “Game publishing — Publishing — Publishing of self-developed games” below for details. For FY2017, FY2018 and FY2019, our revenue generated from publishing self-developed games was nil, RMB32.9 million and RMB45.5 million, respectively, representing nil, 21.8% and 24.3% of our total revenue, respectively.

### **As co-publisher**

We provide publishing services to third party publishers for third party games as a co-publisher which, by co-publishing over 320 third party games, generated the majority of our revenue during the Track Record Period. Subject to the co-publishing agreements entered into between the third party publishers and us, our publishing services include marketing, promotional, distribution, coordination and other user related services. We work and negotiate directly with the third party publishers and do not collaborate with the mobile game developers or other publishing service providers engaged by the third party publishers. Occasionally, we would subcontract some of our co-publishing responsibilities to our downstream third party publishing partners including other third party co-publishers, advertising agents, payment channels and distribution channels depending on the publishing work scope and our available resources. See “Game publishing — Publishing — Co-publishing of third party games” below for details. For FY2017, FY2018 and FY2019, the revenue generated from co-publishing third party games were RMB98.8 million, RMB107.2 million and RMB142.2 million, respectively, representing 92.1%, 70.9% and 75.7% of our total revenue, respectively.

### **As distribution channel**

For certain third party games that we co-publish, we would also distribute the games on our self-operated platform and insert our own SDK to the game where we are responsible for user log-in, top-up and payment services. See “Game publishing — Publishing — Co-publishing of third party games” below for details.

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The following table sets out a breakdown of our revenue by segment during the Track Record Period:

	FY2017		FY2018		FY2019	
	RMB'000	% of revenue	RMB'000	% of revenue	RMB'000	% of revenue
Game publishing						
– Co-publishing of third party games	98,758	92.1	107,248	70.9	142,174	75.7
– Publishing of self-developed games	–	–	32,904	21.8	45,536	24.3
Development and sales of customised software and games	8,505	7.9	11,062	7.3	–	–
Others <sup>(1)</sup>	4	0.0	–	–	–	–
<b>Total</b>	<b>107,267</b>	<b>100.0</b>	<b>151,214</b>	<b>100.0</b>	<b>187,710</b>	<b>100.0</b>

*Note:*

- (1) It represents revenue we generated from sales of computer equipment and hardware, which was insignificant to our Group during the Track Record Period.

### OUR GAME PORTFOLIO

We have published a large portfolio of mobile games sourced from third party publishers or developed by our in-house development team independently. For our self-developed proprietary games, we may publish them by ourselves or sell their source code to third party purchasers. For details, see “Game publishing — Publishing – Publishing of self-developed games” and “Game development and sales — Sale of our self-developed games and software” below. During the Track Record Period, we co-published over 320 third party games. Since the commencement of our mobile game development in 2015 and up to the Latest Practicable Date, we had developed 22 games, among which one game was sold to a third party game developer and publisher and two had been published during the Track Record Period. We launched an additional self-developed game in February 2020. We target to further launch five self-developed games in each of 2021 and 2022 subject to approval of relevant governmental authorities.

#### Third party games

We source our third party games through leveraging our years of relationships with mobile game publishers and other mobile game developers as well as seeking new business opportunities by attending and promoting our brand in various industry exhibitions such as the Global Game Conference and China Digital Entertainment Expo & Conference (“**Chinajoy**”). During the initial stage of game scouting, we would discuss our game requirements with our publishing partners, and derive a number of potential games for us to conduct a thorough analysis on various aspects including technical design, artistic and audio design and gameplay of the games. If the analysis results are satisfactory, we will enter into co-publishing agreements with the third party publishers and prepare to commence our engagement. In general, our co-publishing period for our third party games ranges from one to 17 months subject to the profitability and our marketing and publishing strategies of the third party games.

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Third party games that we co-published were in various genres. The table below sets forth details of the third party games we co-published by genre during the Track Record Period:

	FY2017			FY2018			FY2019		
	Number of games co-published	Revenue RMB'000	%	Number of games co-published	Revenue RMB'000	%	Number of games co-published	Revenue RMB'000	%
RPG	49	67,038	67.9	82	49,725	46.4	121	74,621	52.5
SLG	3	3,363	3.4	9	45,822	42.7	46	61,823	43.5
Casual	50	25,919	26.2	10 <sup>(1)</sup>	11,701	10.9	23 <sup>(1)</sup>	5,730	4.0
Others <sup>(2)</sup>	6	2,438	2.5	–	–	–	–	–	–
<b>Total</b>	<b>108</b>	<b>98,758</b>	<b>100.0</b>	<b>101<sup>(3)</sup></b>	<b>107,248</b>	<b>100.0</b>	<b>190<sup>(4)</sup></b>	<b>142,174</b>	<b>100.0</b>

Notes:

- (1) It comprises a game platform of casual games.
- (2) It mainly represents arcade games, sports games and applications.
- (3) In FY2018, there were nine RPG games, two SLG games and seven casual games that we had been co-publishing since FY2017.
- (4) In FY2019, there were 42 RPG games, seven SLG games and two casual games that we had been co-publishing since FY2018, and two RPG games that had been co-publishing since FY2017.

Since March 2018 until early December 2018, the PRC government has suspended the approval and registration process of new online games. During that period, the number of new games available in the market significantly decreased and most of the RPG games that we co-published in FY2018 had already been released to the market for a period of time by the third party publishers. The profitability of such RPG games in FY2018 decreased as compared to FY2017 as most of our co-published RPG games in FY2018 had passed their early growth stage such that the revenue generated from such games was relatively lower. We strategically increased the number of our RPG games in our portfolio in FY2018 in order to maintain our sources of revenue. Nonetheless, our revenue from co-publishing third party RPG games decreased from RMB67.0 million in FY2017 to RMB49.7 million in FY2018 despite the fact that the number of co-published RPG games increased from 49 to 82 during the same period.

As casual games recorded lower profitability as compared to RPG and SLG games in FY2017, we strategically reduced the number of casual games in our portfolio in FY2018 as compared to FY2017 and allocated additional resources into RPG and SLG games.

We recorded a significant growth in the total number of games that we co-published in FY2019 as compared to FY2018. The number of our co-published RPG games continued to increase from 82 in FY2018 to 121 in FY2019 and RPG games remained to be the majority in our portfolio both in terms of number and revenue contribution in FY2019. The number of our co-published SLG games also increased significantly from nine in FY2018 to 46 in FY2019. Notwithstanding that the profitability of SLG games decreased in FY2019 as compared to FY2018 due to the high popularity gained among players for two war themed SLG games, namely Commanding Frontline\* (指揮前線) and Interstellar Civilisation\* (星際

文明), which collectively contributed 27.0% of our revenue from game publishing in FY2018, we managed to achieve growth in revenue from co-publishing SLG games with our significantly expanded SLG games portfolio in FY2019.

In view of the overall increase in processing time for obtaining pre-approval for publishing our self-developed games after the resumption of the approval process of game registration and issuance of publication numbers by the NPPA in December 2018, we have proactively allocated more resources in co-publishing third party games in order to maintain our revenue stream, where this business segment contributed 70.9% and 75.7% of our total revenue in FY2018 and FY2019, respectively. Our Directors are of the view that such strategic move has reduced the impact of the increase in processing time for obtaining publication numbers thereby minimising the negative impact on the overall financial condition or business operations of our Group.

### **Self-developed proprietary games**

Our in-house development team has been developing a series of games with a focus on the RPG and casual game genres. We have gained experience and established resources from the successful development of 10 RPG games, 11 casual games and one SLG game since the commencement of our mobile game development in 2015.

Our self-developed games comprise single player games and online games. Our single player games are mostly casual games which are expected to be played by a single user alone throughout a gaming session and with relatively simple gameplay. They have shorter development cycle and less sophisticated design, with high repeat rate on gameplay and in-game virtual items with lower pricing to attract users. In contrast, our online games are games with higher standard of artistic and gameplay design that leverage interactions among large numbers of players using various mobile devices. Online games promote interaction between players, who can leverage their existing social networks and create new virtual communities in the games. While playing our online games, players can compare their progress to those of their peers, engage in combats and message their peers to discuss strategies and form alliances. These features enhance the socially engaging nature and user stickiness of our games, which allow us to attract large numbers of players and prolong game lifecycle without increasing our direct marketing expenses.

Our self-developed games may also incorporate the following technological features to enhance players' gaming experience, which may include:

- multiple levels of strengths and weaknesses across game characters with each character being able to gain diverse experiences and unique virtual items; and
- user upgrade system that encourages users to achieve higher in-game attributes as they complete tasks, accrue experience or purchase virtual items.

All of our self-developed games are in mobile application form and free to download, and players can play with basic functions for free. We believe that our freemium model attracts a wider audience of players and increases the number of potential paying users.

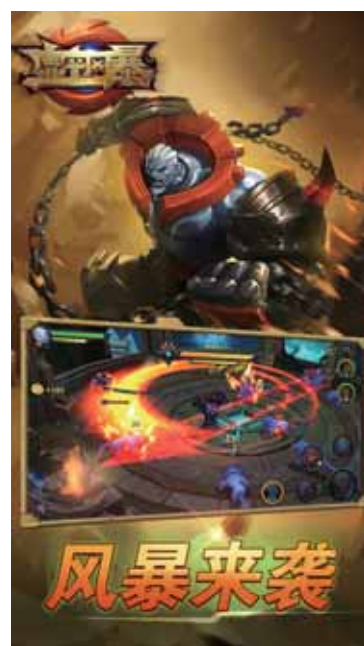
Since the commencement of our mobile game development in 2015 and up to the Latest Practicable Date, we had completed the development of 22 games. During the Track Record Period, we have sold one game to a third party game developer and publisher and published two self-developed RPG games, namely Hollow Storm\* (虛空風暴) and Princess in Distress\* (公主遇險記), and began trial-run of another self-developed game, namely Stratagem in the Three Kingdoms\* (醉計三國). We in aggregate

generated revenue of RMB6.7 million, RMB40.9 million and RMB45.5 million from publishing of our self-developed games and sales of our self-developed game in FY2017, FY2018, and FY2019, respectively.

### Games in operation

As at the Latest Practicable Date, we had 95 games published or operated by us, some of which are described below:

#### *Hollow Storm\** (虛空風暴)



Hollow Storm\* (虛空風暴) is one of our self-developed games published by us. The SAPPRFT issued the pre-approval for publishing the game on 26 February 2018 and it was officially launched in July 2018. It is a combat themed mobile RPG game targeted at users between the ages of 28 and 35. In Hollow Storm\* (虛空風暴), gameplay is split into two stages, whereby players participate in player-versus-environment battles in the first stage to level up and collect resources, while the second stage comprises of player-versus-player combat. The game offers in-game purchases of virtual items to enhance combat power and upgrades of the character, and utilises cloud service for record of account progress.



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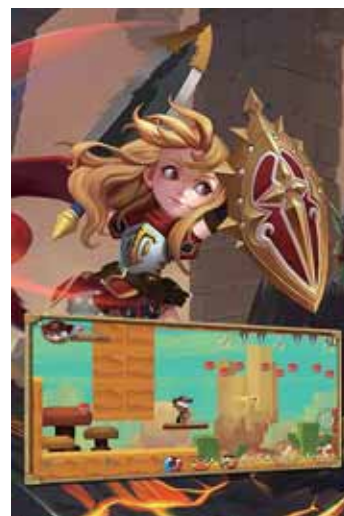
The following table sets forth the respective operating data of and revenue generated from Hollow Storm\* (虛空風暴) during the Track Record Period and up to 30 April 2020:

Game genre	RPG
Launch time	Initial launch: July 2018 Re-open: April 2019 <sup>(1)</sup>
Stage of life cycle as at the Latest Practicable Date	Mature
Revenue	FY2018: RMB26.5 million FY2019: RMB35.1 million April 2020: RMB11.4 million <sup>(2)</sup>
% to total revenue	FY2018: 17.5% FY2019: 18.7% April 2020: 17.4% <sup>(2)</sup>
Average MAU	FY2018: 508,740 <sup>(3)</sup> FY2019: 277,140 <sup>(3)</sup> April 2020: 335,718 <sup>(2)</sup>
Average MPU	FY2018: 30,374 <sup>(3)</sup> FY2019: 19,017 <sup>(3)</sup> April 2020: 17,539 <sup>(2)</sup>
ARPPU	FY2018: RMB159.2 <sup>(3)</sup> FY2019: RMB158.8 <sup>(3)</sup> April 2020: RMB161.9 <sup>(2)</sup>
Average monthly gross billings	FY2018: RMB6.2 million <sup>(3)</sup> FY2019: RMB3.2 million <sup>(3)</sup> April 2020: RMB2.8 million <sup>(2)</sup>

*Notes:*

- (1) Hollow Storm\* (虛空風暴) was launched in July 2018 and temporarily suspended for game log-in for a major game upgrade in order to improve the gameplay since late December 2018. The game was re-opened on 10 April 2019 and in full operation as at the Latest Practicable Date. Due to the temporary suspension of game log-in, the popularity and operating results of the such game were adversely affected. However, attributable to the major game upgrade, our Group has successfully prolonged the game life cycle of the game and continued to generate revenue since the re-open of the game.
- (2) Based on unaudited financial information or operational data for the four months ended 30 April 2020.
- (3) Represent operational data from the initial launch or re-open of the game to the end of the relevant financial year.

*Princess in Distress\** (公主遇險記)



*Princess in Distress\** (公主遇險記) is one of our self-developed games published by us. The SAPPRT issued the pre-approval for publishing the game on 22 November 2017 and it was officially launched in August 2018. It is a cartoon styled, side-scrolling adventure game targeted at female users between the ages of 12 and 30. Through a character switch mechanism, players are able to utilise each character's particular traits in order to progress through levels. The game includes three themed settings, as well as various challenges in order to allow players to enjoy the aspects of destructible environments, level progressing and puzzle solving. Players are able to purchase virtual currency in order to purchase various virtual items.

The following table sets forth the respective operational data of and revenue generated from *Princess in Distress\** (公主遇險記) during the Track Record Period and up to 30 April 2020:

Game genre	RPG
Launch time	August 2018
Stage of life cycle as at the Latest Practicable Date	Mature
Revenue	FY2018: RMB6.4 million FY2019: RMB10.4 million April 2020: RMB1.0 million <sup>(1)</sup>
% to total revenue	FY2018: 4.2% FY2019: 5.5% April 2020: 1.6% <sup>(1)</sup>
Average MAU	FY2018: 324,290 <sup>(2)</sup> FY2019: 565,577 April 2020: 296,355 <sup>(1)</sup>

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Average MPU	FY2018: 47,320 <sup>(2)</sup> FY2019: 60,499 April 2020: 23,658 <sup>(1)</sup>
ARPPU	FY2018: RMB27.8 <sup>(2)</sup> FY2019: RMB14.3 April 2020: RMB11.0 <sup>(1)</sup>
Average monthly gross billings	FY2018: RMB1.4 million <sup>(2)</sup> FY2019: RMB0.9 million April 2020: RMB0.3 million <sup>(1)</sup>

*Notes:*

- (1) Based on unaudited financial information or operational data for the four months ended 30 April 2020.
- (2) Represent operational data from the initial launch of the game to the end of the relevant financial year.

*Stratagem in the Three Kingdoms\* (醉計三國)*



Stratagem in the Three Kingdoms\* (醉計三國) is one of our self-developed games published by us. The NPPA issued the pre-approval for publishing the game on 12 March 2019 and it was officially launched in February 2020. It is an animated styled adventure game based on the Three Kingdoms period in the Chinese history targeted at users between the ages of 22 and 35. In the world of the Three Kingdoms, players enter the game with the selection of three characters with different skill set settings. Players can choose to combat in different locations under the world map of the game and capture different cities according to their strength. Each battle consumes the strength of the characters and the characters will be rewarded with experience points for upgrading of their capabilities and weapons. The game also offers in-game purchases of virtual items to enhance capability and weapon upgrades.

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The following table sets forth the respective operational data of and revenue generated from Stratagem in the Three Kingdoms\* (醉計三國) during the Track Record Period and up to 30 April 2020:

Game genre	RPG
Launch time	February 2020
Stage of life cycle as at the Latest Practicable Date	Early growth
Revenue	FY2019: RMB60,000 <sup>(2)</sup> April 2020: RMB21.5 million <sup>(1)(3)</sup>
% to total revenue	FY2019: 0.0% <sup>(2)</sup> April 2020: 32.9% <sup>(1)(3)</sup>
Average MAU	FY2019: 11,022 <sup>(2)</sup> April 2020: 432,230 <sup>(1)(3)</sup>
Average MPU	FY2019: 367 <sup>(2)</sup> April 2020: 29,993 <sup>(1)(3)</sup>
ARPPU	FY2019: RMB163.5 <sup>(2)(3)</sup> April 2020: RMB179.0 <sup>(1)(3)</sup>
Average monthly gross billings	FY2019: RMB64,000 <sup>(2)(3)</sup> April 2020: RMB5.8 million <sup>(1)(3)</sup>

*Notes:*

- (1) Based on unaudited financial information or operational data for the four months ended 30 April 2020.
- (2) Stratagem in the Three Kingdoms\* (醉計三國) commenced trial-run in December 2019. Represent operational data or financial information during the trial-run which is not representative of the actual performance of the game.
- (3) Stratagem in the Three Kingdoms\* (醉計三國) was launched in February 2020. Represent operational data or financial information during the trial-run and after official launch.

*Commanding Frontline\** (指揮前線)



Commanding Frontline\* (指揮前線) is a World War II themed, SLG mobile game and is one of the third party games we co-published which was officially launched in September 2018. The game consists of the Allies camp or Axis camp, with units including infantry, commandos and bazooka units, as well as well-known tank models such as the Tiger and T-34. Players are able to grow their army through their choices in training type, and then proceed to join one of the two camps to participate in large scale battles.

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### Top five published games

The following table sets forth the revenue contribution from the top five games published by our Group during the Track Record Period:

Game	Source of game	Genre	Revenue calculation basis	Revenue RMB'000	% of revenue from game publishing %
<b>FY2017</b>					
Legend of the God of War* (武神傳說)	Third party	RPG	CPS	10,918	11.1
Legendary Battle Hymn* (傳奇戰歌)	Third party	RPG	CPS	8,186	8.3
Taichi Panda 3* (太極熊貓3)	Third party	RPG	CPC	7,264	7.4
King of Wushu: Origin* (九陽神功：起源)	Third party	RPG	CPC	4,964	5.0
Dragon King Legend* (龍王傳說)	Third party	RPG	CPA	4,203	4.3
<b>FY2018</b>					
Commanding Frontline* (指揮前線)	Third party	SLG	CPS	27,570	19.7
Hollow Storm* (虛空風暴)	Self-developed	RPG	Sales of in-game virtual items	26,490	18.9
Interstellar Civilisation* (星際文明)	Third party	SLG	CPS	10,263	7.3
Yunsu Game Platform* (雲速遊戲) <sup>(1)</sup>	Third party	Casual	CPA	6,638	4.7
Princess in Distress* (公主遇險記)	Self-developed	RPG	Sales of in-game virtual items	6,413	4.6
<b>FY2019</b>					
Hollow Storm* (虛空風暴)	Self-developed	RPG	Sales of in-game virtual items	35,103	18.7
Warmish Town* (暖暖小鎮)	Third party	RPG	CPS	21,983	11.7
Miracle of the People* (全民奇蹟)	Third party	SLG	CPS	14,486	7.7
Princess in Distress* (公主遇險記)	Self-developed	RPG	Sales of in-game virtual items	10,373	5.5
Westward Journey* (叻叻西遊)	Third party	RPG	CPS	9,268	4.9

Note:

- (1) It is a platform of casual games which we were commissioned by Customer I, one of our top five customers in FY2018, to provide promotion service.

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### Game pipeline

As at the Latest Practicable Date, we had in our publishing pipeline two titles of our self-developed proprietary games that had completed alpha-testing of our development stage and we had applied for registration with NPPA for those games. The following table sets forth details of such games in chronological order of their proposed launch dates:

Title	Registration status with NPPA	Genre	Expected official launch date <sup>(1)</sup>	Expected lifecycle
Apprentice of the Spirit* (英靈學徒)	Pending for pre-approval	RPG	May 2021	6-12 months
Fearless Sword* (刀劍忘機)	Pending for pre-approval	RPG	June 2021	6-12 months

*Note:*

- (1) The successful launching and publishing of our games are subject to pre-approval from the NPPA. If the NPPA does not issue the pre-approvals for publishing our games before the expected official launch date, the official launch date of our games will be delayed or we may seek for interested purchasers to purchase our games depending on the future market situation.

We take into consideration games on top sales lists in the market for reference on market preferences, in order to determine suitable games for development that would fit in the current market trend and demand.

As at the Latest Practicable Date, in addition to 92 third party games which we were co-publishing, we had been engaged and expected to further co-publish 14 third party games in 2020, including eight RPG games, one SLG game and five casual games with initial contract terms ranging from six months to three years as stipulated under the respective co-publishing agreements entered into between our Group and the third party publishers. The commencement and actual duration of the co-publishing period of a third party game are subject to the schedule agreed and adjusted with the third party publishers from time to time with reference to the profitability and market reception of the game. In order to maintain a significant number of third party games with wide coverage of genres in our game portfolio for co-publishing as our business practice, our publishing team constantly and continuously seeks for new third party games and negotiates with third party publishers for new co-publishing arrangements.

## **GAME PUBLISHING**

We focus on the mobile game industry in China as it was the largest online game market in the world in 2019 and the mobile game industry has dominated the online game market in China since 2016 according to the CIC Report. As a game publisher, we (i) offer publishing services to our publishing partners for third party games; and (ii) publish our self-developed games. Depending on the proprietary rights of the games and the service requirements of our customers, the responsibilities we assume in each publishing project vary. In general, we publish mobile games from our game portfolio either by providing publishing services in collaboration with our third party publishing partners as a co-publisher or by publishing our self-developed games with our own proprietary titles. During the Track Record Period, we have co-published over 320 third party games and we have also published two self-developed proprietary games on our self-operated platform and through other distribution channels.

### **Our publishing partners**

In game publishing, our publishing partners include (i) our upstream partners, i.e. third party publishers who engage us as co-publisher for third party games; and (ii) our downstream partners, i.e. publishing service providers whom we may engage, such as other third party co-publishers, advertising agents, payment channels (including two major payment channels in China) as well as third party distribution channels including various open platforms operated by leading mobile manufacturers in China or other Independent Third Parties.

We have established partnerships with a number of mobile game publishers on the back of our track record in the mobile game industry, which have enabled us to secure a steady supply of third party games for co-publishing during the Track Record Period. We also actively seek business opportunities from potential publishing partners through attending and promoting our brand in various industry exhibitions such as the Global Game Conference and Chinajoy, where we are able to actively scout for the publishing opportunities of games that are in line with our interests and that we believe have the potential to be well received by the market. We select our publishing partners based on factors including their game quality, coverage of their game genres and size of their game portfolio for upstream partners, and industry experience, scale of user base and market resources for downstream partners.



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Details of our major upstream publishing partners (with which our Group co-published games that contributed to over 5% of our Group’s revenue from game publishing during the Track Record Period) are set forth below:

Publishing partner <sup>(1)</sup>	Background	% of total revenue from game publishing	Commencement of business relationship in	Number of games co-published during the Track Record Period
<b>FY2017</b>				
Customer A	A company established in the PRC and listed on the NEEQ which engages in the design and development of games and the market capitalisation of the company as at the Latest Practicable Date was RMB1.0 billion	17.5	March 2017	5
Customer B	A company established in the PRC and listed on the Shenzhen Stock Exchange which engages in the publishing of online and mobile games and the market capitalisation of the company as at the Latest Practicable Date was RMB18.4 billion	13.2	December 2016	4
Customer C	A private company established in the PRC which engages in game publishing	10.9	May 2017	6
<b>FY2018</b>				
Customer F	A private company established in the PRC which engages in internet technology and communications system and publishing of online games	20.2	August 2018	2
Customer G	A private company established in the PRC which engages in game publishing and operation	13.6	June 2018	33
Customer H	A private company established in the PRC which engages in operational internet cultural activities and publishing of online games	9.1	August 2018	2
<b>FY2019</b>				
Customer K	A private company established in the PRC which engages in advertising services and software development	18.3	February 2019	24
Customer L	A private company established in the PRC which engages in software development	16.6	October 2018	2
Customer M	A private company established in the PRC which engages in software development and related services	10.1	June 2019	34
Customer F	A private company established in the PRC which engages in internet technology and communications system and publishing of online games	7.0	August 2018	2

*Note:*

- (1) For publishing partners which were also our top customers during the Track Record Period, see “Our customers — Top customers” in this section for details.

## **Publishing**

### *Co-publishing of third party games*

For co-publishing of third party games, the upstream third party publishers, instead of operating and managing the entire publishing process of their games, they would normally engage co-publishers like us in order to utilise our publishing resources to publish their games in a wider geographical coverage and larger user base. We normally provide marketing, promotional, distribution and coordination services to third party publishers as a co-publisher and assist them to publish their games on various distribution channels, where, subject to the terms of our co-publishing agreements, we may sometimes obtain exclusive rights from third party publishers to promote and publish the games through designated distribution channels. As co-publisher, we work and negotiate directly with the third party publishers and do not collaborate with the game developers or other publishing service providers engaged by the third party publishers.

Before and in the course of co-publishing a third party game, we would conduct game testing and study and analyse the characteristics, gameplay and expected profit margin of the games. We would then formulate a publishing schedule and set out timeline for providing (i) marketing and promotional services where we would place advertisements on various platforms such as search engines and social media platforms through different advertising agencies, as well as promote the third party games on our self-operated platform. We target our mobile game advertisements on customers statistically and analytically through suitable advertising channels. We would tactically select different advertising channels according to their target audiences and market penetration reports to match our co-published games with the main audiences of the channels including age, gender group and personal interests in order to increase the advertising accuracy as well as the user conversion rate. With our operating experience and user feedbacks collected, we depict the contents of the advertisements more accurately for our targeted users by integrating the game features and game benefits with social attractions or festival themes and deliver different game genres to the targeted user groups based on their preference and tastes. We would also create and modify marketing materials such as online banners, posters and slogans to cope with the fast-changing marketing trend and attract more users; and (ii) distribution services where we would engage distribution channels of various types or utilise our self-operated platform to manage and be responsible for users download, log-in, top-up and payment services. See “Game publishing — Game distribution” below for details of different types of distribution channels. We maintained solid relationships with certain long tail distribution channels which possess established user base and stable user traffic that may not be possessed by the upstream third party publishers. With our in-depth analysis of the game, we would select suitable distribution channels from time to time during our co-publishing period as our publishing partners to distribute and promote the game to targeted game users. For example, we would conduct analysis relating to the genres and targeted players of the games distributed on different distribution channels and review the operational data such as the size and distribution of the user base and total downloading data from the distribution channels to analyse the effectiveness of the distribution platform, and we would add or replace the distribution channels on continuous basis to optimise the publishing result. Through engaging with our services, the game can be delivered to more users who could be potentially converted into paying users. As the proprietary rights of the games being published belong to the developers of the games, we, as co-publisher, do not have the rights on game modifications and upgrades which are normally vested on the third party game developers or third party publishers. Nonetheless, we may provide value-added coordination services which include giving suggestions based on the technical information provided by various distribution channels, requesting the third party publishers for setting up game servers at different timeframes and passing on feedbacks we collect from game players to the third party publishers for them to take consideration in their optimisation plans for the games.

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In order to leverage the extensive marketing and promotion capability of other third party publishing service providers such as other third party co-publishers or advertising agents, we may subcontract some of our publishing responsibilities to them. Depending on our work scope for co-publishing third party games, sometimes we may also be responsible for engaging payment channels or distribution channels for publishing the games. We engage such third party publishing service providers to co-publish third party games with us on terms similar to the co-publishing agreements entered into by us when we are engaged as a co-publisher.

We typically enter into legally binding co-publishing agreements with the third party publishers which authorise us to publish, market and promote games. The major terms of such co-publishing agreements are set forth below:

- *Our responsibilities.* We are generally responsible for providing the below services:
  - the creation of marketing materials and advertisements for the promotion and distribution of games online and offline;
  - arrangement of the third party games to be distributed on various third party distribution channels. In general, we will select suitable distribution channels for specific games based on the genres of the games and their target users; and
  - on a case-by-case basis, we may obtain exclusive rights to promote and publish the games through designated distribution channels, where, in addition to marketing, promotion and distribution services, we are also responsible for the account registration and top-up services for users acquired from the designated distribution channels. Other major terms under the co-publishing agreements are similar for co-publishing third party games with or without such exclusive rights. Details of third party games with exclusive rights to co-publish on designated distribution channels during the Track Record Period are set forth below.

Title	Genre	Approval date from NPPA	Actual co-publishing period <sup>(1)</sup>	Designated distribution channels with exclusive rights	Revenue calculation basis	Revenue generated RMB'000	% of revenue from game publishing %
Commanding Frontline* (指揮前線)	SLG	22 March 2017	Since September 2018	bdsuite* (百度手機助手), Sogou mobile tool* (搜狗手機助手), yeshen.com* (夜神遊戲), Oriental Pearl Game Platform* (東方明珠), gfan.com* (機鋒遊戲), d.cn* (當樂網), t-game* (聯想遊戲)	CPS	FY2018: 27,570 FY2019: 7,648	FY2018: 19.7 FY2019: 4.1
Game A	SLG	23 March 2018	October 2018 – April 2019	bdsuite* (百度手機助手), Sogou mobile tool* (搜狗手機助手), yeshen.com* (夜神遊戲), Oriental Pearl Game Platform* (東方明珠), gfan.com* (機鋒遊戲), d.cn* (當樂網), lenovo-app store* (聯想樂商店) our self-operated platform	CPS	FY2018: 10,263 FY2019: 440	FY2018: 7.3 FY2019: 0.2

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Title	Genre	Approval date from NPPA	Actual co-publishing period <sup>(1)</sup>	Designated distribution channels with exclusive rights	Revenue calculation basis	Revenue generated RMB'000	% of revenue from game publishing %
Game B	RPG	16 November 2017	Since November 2018	bdsuite* (百度手機助手), Sogou mobile tool* (搜狗手機助手), yeshen.com* (夜神遊戲), Oriental Pearl Game Platform* (東方明珠), gfan.com* (機鋒遊戲), d.cn* (當樂網), our self-operated platform	CPS	FY2018: 1,095 FY2019: 21,983	FY2018: 0.8 FY2019: 11.7
Game C	RPG	13 July 2017	November 2018 – March 2019	Oriental Pearl Game Platform* (東方明珠), our self-operated platform	CPS	FY2018: 2,463 FY2019: 686	FY2018: 1.8 FY2019: 0.4
Game D	RPG	19 April 2017	Since December 2018	Sogou mobile tool* (搜狗手機助手), yeshen.com* (夜神遊戲), our self-operated platform	CPS	FY2018: 679 FY2019: 5,467	FY2018: 0.5 FY2019: 2.9
Game E	RPG	12 July 2016	December 2018 – August 2019	Sogou mobile tool* (搜狗手機助手), yeshen.com* (夜神遊戲), Oriental Pearl Game Platform* (東方明珠), gfan.com* (機鋒遊戲), d.cn* (當樂網), our self-operated platform	CPS	FY2018: 1,749 FY2019: 9,268	FY2018: 1.2 FY2019: 4.9
Game F	SLG	22 August 2018	Since July 2019	bdsuite* (百度手機助手), Sogou mobile tool* (搜狗手機助手), yeshen.com* (夜神遊戲), gfan.com* (機鋒遊戲), t-game* (聯想遊戲) and our self-operated platform	CPS	FY2019: 7,805	FY2019: 4.2
Game G	RPG	21 October 2016	Since November 2019	bdsuite* (百度手機助手), Sogou mobile tool* (搜狗手機助手), yeshen.com* (夜神遊戲), gfan.com* (機鋒遊戲), t-game* (聯想遊戲), d.cn* (當樂網), game.xiaomi.com (小米遊戲中心), guopan.cn (果盤遊戲) and ldplayer (雷電模擬器)	CPS	FY2019: – <sup>(2)</sup>	FY2019: 0.0

*Notes:*

(1) As at the Latest Practicable Date, Commanding Frontline\* (指揮前線), Game B, Game D, Game F and Game G were in operation and under our co-publishing arrangements.

(2) The amount is less than RMB1,000.

- *Responsibilities of the third party publishers.* The third party publishers shall be responsible for the following:
  - ensuring the installation of the hardware necessary for the operation of the game server and the management and maintenance of the game server, including managing user data management, debugging and resolving system glitches and failure;

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- maintaining the stable operation, as well as rolling out optimisation and upgrades of the game; and
- providing user-end services such as setting up the user log-in authentication interface, handling user consultation and complaints in relation to in-game purchases.
- *Service charge.* Our service charge for providing the co-publishing services was calculated based on two main types of charging basis (i.e. CPA and CPC) or revenue sharing basis (i.e. CPS). For details of our percentage entitled under each type of basis, see “Game publishing — Revenue from publishing business — Third party games” below.
- *Remedies.* The third party publisher shall monitor and be able to penalise us if we conduct marketing practices that are illegal, erotic, defamatory or damaging to third party rights.
- *Payment term.* We are generally entitled to an ongoing payment calculated based on an agreed charging basis or revenue sharing basis. We are allowed to choose between different revenue calculation bases in the course of contract subject to an agreed prior notice to the third party publisher. For games that we obtain exclusive rights to promote and publish through designated distribution channels, we are usually required to pay a down payment to the third party publisher before co-publishing the game.
- *Contract terms and renewal.* Our publishing agreements generally have a term of between one and three years and may be renewed through negotiations between the parties.

For certain games, in addition to the above services, we would also provide distribution, payment and user related services and co-publish the games on our self-operated platform and insert our own SDK to the games where we are responsible for user log-in, top-up and payment services. During the Track Record Period, we inserted our own SDK to a total of six third party games which were co-published on our self-operated platform. In these cases, we would be required to set up and maintain the necessary game servers and user log-in authentication interface, keep user and revenue data, and handle customer enquiries and complaints in relation to top-up and payment issues. As for the third party publishers who engage us, they will be responsible for customer enquiries and complaints in relation to game operation and formulating the revenue-sharing scheme between co-publishers.

*Publishing of self-developed games*

In 2018, we commenced to publish two self-developed games, namely Hollow Storm\* (虛空風暴) and Princess in Distress\* (公主遇險記), both are RPG games. In February 2020, we published an additional self-developed game, namely Stratagem in the Three Kingdoms\* (醉計三國). For details, see “Our game portfolio — Games in operation” in this section. Where we publish mobile games developed by our in-house development team, we enjoy all the proprietary rights of the game including its source code, database function and design. Contrasting with the co-publishing of third party games where we are engaged by the upstream third party publishers to provide publishing services and participate in part of the publishing process of the games, for publishing of our self-developed games, we act as the main game publisher and are responsible for publishing or arranging publishing services for the whole publishing process of our games including marketing, promotion, distribution, monetisation, user support, account registration, payment and other related services. As the developer of our self-developed games in addition to the publisher, we also have the primary responsibilities for the hosting and maintenance of the game servers and providing the game content to the game players and have the right to determine the pricing of in-game virtual items and the specification, modification or any update of the game themselves. Before publishing of our self-developed games, we cooperate with our publishing partners to seek for approval to publish the games from the NPPA. While we could make use of our internal resources to operate, maintain and promote our self-developed games and to participate in most of the publishing process of the game including to distribute the games on our self-operated platform, we would often engage third party publishing service providers including various third party advertising agents, payment channels and distribution channels to be responsible for certain parts of the publishing including the marketing, payment services and distribution of the game. All of our published self-developed games are distributed through both our self-operated platform and various other third party open platforms and we partner with various third-party payment channels to facilitate purchases of virtual items sold in the games through our self-operated platform. See “Game publishing — Game distribution” and “Game publishing — Payment processing” in this section for details of different types of distribution channels and payment channels. We collaborate with the third party publishing service providers to formulate the publishing work scope and the respective revenue sharing arrangement. To such end, we typically enter into legally binding co-publishing agreements with those publishing service providers in terms similar to those referred to in “Game publishing — Publishing — Co-publishing of third party games” above. On the strength of the comprehensive coverage of distribution channels and marketing resources, we believe that publishing our self-developed games with third party publishing service providers could help extend the reach of our games to game players and increase our revenue from publishing of such games.

**Revenue from publishing business**

*Third party games*

We generate revenue from co-publishing third party games based on two main types of charging basis, namely the number of players activating an account in the game we publish (cost-per-action, or “CPA”) or instances of the promotion materials being clicked by internet users (cost-per-click, or “CPC”), and the revenue sharing basis, namely the proceeds from game tokens or other virtual items purchased by users (cost-per-sale, or “CPS”).

Which basis to adopt is decided on a case-to-case basis, and hinges largely on our profitability from the model to be adopted. In determining on the charging basis or revenue sharing basis we adopt for co-publishing a third party game, we would normally take into account factors including, among others, the market acceptance of the third party game, our evaluation of the game quality and our expected staffing and financial resources allocation for co-publishing the game. In general, we are allowed to choose between various revenue calculation basis before and in the course of contract subject to an

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agreed prior notice to the third party publisher. We normally adopt revenue sharing basis if we have sufficient staffing and financial resources and we assess that such games will be more profitable and can sustain for a longer period of time.

For revenue generated on a CPS basis, we calculate our fees on the basis of the revenue generated from the gross billings from users including proceeds from game tokens or other virtual items purchased by users. The gross billings from game users are generally collected by the distribution channels and we receive our portion of the shared revenue after the deduction of pre-agreed commission charges by third party distribution channels (except when we co-publish the third party games on our self-operated platform). Under the CPS basis, we have revenue sharing arrangement with our publishing partners including third party publishers and other publishing services providers. For co-publishing of third party games, we negotiate the percentage of the revenue sharing on a case-by-case basis with the third party publishers who engage us as co-publisher based on our roles and responsibilities during the publishing process of the game. We do not collaborate with or participate in the formulation of the overall revenue sharing arrangement among the mobile game developers or other publishing service providers engaged by the third party publishers. Depending on the publishing work scope and our available resources, we would subcontract some of our co-publishing responsibilities to our downstream third party publishing partners where we would negotiate the charging or revenue sharing basis and percentage with each of them.

The following tables set forth the charging or revenue sharing arrangement during the Track Record Period when (i) we were engaged by third party publishers for providing publishing services as co-publisher; and (ii) we engaged our downstream publishing partners to provide publishing services to us for co-publishing third party games.

### Revenue calculation basis for our publishing services provided to our upstream publishing partners

Calculation basis	Type of counterparty	Revenue determined by	Information tracked by	Average unit charge
CPA <sup>(1)</sup>	Upstream game publishers	Number of players activating an account (e.g. downloading, installing, registration, character creation)	Upstream game publishers	FY2017: RMB5.60/action FY2018: RMB2.89/action FY2019: RMB2.83/action
CPC <sup>(2)</sup>	Upstream game publishers	Number of clicks of the advertisement	Upstream game publishers	FY2017: RMB0.32/click FY2018: RMB0.12/click FY2019: –
CPS <sup>(3)</sup>	Upstream game publishers	Sharing of an agreed portion of amount of gross billings generated through designated distribution channels	Upstream game publishers, our Group	FY2017: 58.8% FY2018: 64.5% FY2019: 56.2%

## BUSINESS

### Calculation basis for cost of services from our downstream publishing partners

Calculation basis	Type of counterparty	Revenue determined by	Information tracked by	Average unit charge
CPA <sup>(1)</sup>	Co-publishers, advertising agents, distribution channels	Number of players activating an account (e.g. downloading, installing, registration, character creation)	Co-publishers, advertising agents, distribution channels	FY2017: RMB9.23/action FY2018: RMB7.03/action FY2019: RMB12.97/action
CPC <sup>(2)</sup>	Co-publishers, advertising agents, distribution channels	Number of clicks of the advertisement	Co-publishers, advertising agents, distribution channels	FY2017: RMB0.18/click FY2018: RMB0.27/click FY2019: –
CPM <sup>(4)</sup>	Co-publishers, advertising agents, distribution channels	Number of instances of advertisement displayed to internet users	Co-publishers, advertising agents, distribution channels	FY2017: RMB8.62/mille FY2018: RMB6.39/mille FY2019: –
CPS <sup>(3)</sup>	Co-publishers, payment channels, distribution channels	Sharing of an agreed portion of amount of gross billings generated through designated distribution channels	Upstream game publishers, co-publishers, distribution channels	FY2017: 47.2% FY2018: 45.5% FY2019: 47.4%

*Notes:*

1. CPA refers to cost per action, an online advertising pricing model where the fee is determined based on the number of actions such as a sale, click, install or form submitted, where, in our calculation basis, refers to the number of players activating an account (e.g. downloading, installing, registration or character creation). Unit price of CPA is determined by numerous factors including the types of pre-agreed actions (e.g. downloads, installations of games, account registration), type of games and location. Sophisticated action like registering or creating a character in a game typically renders a relatively higher unit price as compared to simple actions like downloading a game.
2. CPC refers to cost per click, an online advertising pricing model where the fee is determined based on the number of times the advertisement is clicked.
3. CPS refers to cost per sale, a performance-based pricing model where advertising is paid on the basis of increased sale amount as a result of the advertising, where, in our calculation basis, refers to the revenue sharing of an agreed portion of amount of gross billings generated through designated distribution channels (e.g. the proceeds from game tokens or other virtual items purchased by the game players).
4. CPM refers to cost per mille, an online advertising pricing model where the fee is determined based on the number of impressions achieved by the advertisement, where, in our calculation basis, refers to the number of instances of advertisement displayed to internet users.
5. We may strategically engage one or more downstream publishing partners with charging bases different from that offered by our upstream game publisher of the corresponding games. For example, with an aim to increase the reach of the game to more potential users, we may engaged third party publishing partners under CPC and CPM to promote our co-published third party game that we charge our co-publishing services on a CPS basis.



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### *Self-developed games*

For publishing of our self-developed games, we generate revenue from selling of virtual items to game users. In the course of publishing our self-developed games, we publish them primarily in collaboration with various third party distribution channels as our downstream publishing partners under the CPS basis, where we would negotiate the publishing work scope and the revenue sharing percentage with such publishing partners before commencement of our engagement with them. During the Track Record Period, the agreed revenue sharing percentage offered to our downstream publishing partners ranged from 30.0% to 55.0%. For publishing of our self-developed games, as compared to co-publishing of third party games, we enjoy greater freedom to formulate the charging or revenue sharing arrangement with our downstream publishing partners where we are able to maximise the revenue sharing percentage as developer and publisher of our self-developed games.

The following table sets out our game publishing revenue generated from each revenue calculation basis during the Track Record Period:

	FY2017		FY2018		FY2019	
	<i>RMB'000</i>	<i>% of publishing revenue</i>	<i>RMB'000</i>	<i>% of publishing revenue</i>	<i>RMB'000</i>	<i>% of publishing revenue</i>
Co-publishing of third party games						
CPA	39,783	40.3	10,876	7.8	4,546	2.4
CPC	14,693	14.9	1,038	0.7	–	–
CPS	44,282	44.8	95,334	68.0	137,628	73.3
Subtotal	98,758	100.0	107,248	76.5	142,174	75.7
Publishing of self-developed games	–	–	32,904	23.5	45,536	24.3
Total	<u>98,758</u>	<u>100.0</u>	<u>140,152</u>	<u>100.0</u>	<u>187,710</u>	<u>100.0</u>

### **Game distribution**

During the Track Record Period, our published games were downloaded by our users through various distribution channels for the iOS and Android system. For iOS users, the iOS App Store, which attracts user traffic, provides user access and collects and tracks user data, is our only distribution channel where our games can be downloaded and installed by our users. For Android users, we distribute our games through third party distribution channels including the open platforms operated by leading mobile manufacturers in China or other Independent Third Parties, or through our self-operated platform, which can be accessed through our website (<http://www.dingliangame.com>) where we provide game descriptions, screenshots and download links for our users so that they can download and install our games directly from our self-operated platform. Our self-operated platform also provides game users registration services and user account top-up services.

During the Track Record Period, most of our third party games were distributed through various distribution channels for Android users. Through such distribution channels, we can reach a wide audience of users and take advantage of the popularity of these distribution channels as well as their social and sharing network. For some third party games, we would provide distribution services and co-publish the games on our self-operated platform and insert our own SDK to the games. During the Track Record Period, our service of distributing third party games with our own SDK on our self-operated platform was provided as an integrated part of our game co-publishing services and reflected in service charge to our customers as co-publisher. For details, see “Game publishing — Publishing — Co-publishing of third party games” in this section.

For distribution of our self-developed games, we can utilise our self-operated platform or engage third party distribution channels to provide distribution services to us where they will insert their payment SDK to the games and be responsible for user log-in, top-up and payment services. We enter into distribution agreements on a game-by-game basis. These agreements generally authorise the distribution channels to publish our self-developed games non-exclusively for a term between one to two years. Under these agreements, we are responsible for the development, update, improvement and ongoing technology support and maintenance of our games. The distribution channels are responsible for providing marketing and billing services, as well as the management and maintenance of the billing system and the distribution platform.

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The following table sets out the revenue and gross profit margin breakdown by major game distribution channels used by our Group for publishing games during the Track Record Period:

Distribution channels	FY2017			FY2018			FY2019		
	Publishing revenue <i>RMB'000</i>	% of publishing revenue	Gross profit margin %	Publishing revenue <i>RMB'000</i>	% of publishing revenue	Gross profit margin %	Publishing revenue <i>RMB'000</i>	% of publishing revenue	Gross profit margin %
<b>Co-publishing of third party games</b>									
Mainstream third party App Stores	-	-	-	33,421	23.8	40.7	47,482	25.3	40.4
Smartphone manufacturer App Stores	-	-	-	-	-	-	4,548	2.4	40.1
Long-tail channels	11,279	11.4	21.1	29,240	20.9	28.1	2,426	1.3	32.4
Game publisher server and user traffic through advertisement (other than our self-operated platform)	84,527	85.6	32.9	42,903	30.6	37.4	87,718	46.7	33.0
Our self-operated platform	2,951	3.0	87.2	1,684	1.2	93.4	-	-	-
	<u>98,758</u>	<u>100.0</u>	<u>33.2</u>	<u>107,248</u>	<u>76.5</u>	<u>36.8</u>	<u>142,174</u>	<u>75.7</u>	<u>35.7</u>
<b>Publishing of self-developed games</b>									
Mainstream third party App Stores	-	-	-	19,991	14.3	22.8	34,689	18.5	58.2
Smartphone manufacturer App Stores	-	-	-	1,793	1.3	30.0	10,102	5.4	45.5
Long-tail channels	-	-	-	11,120	7.9	27.5	745	0.4	43.0
	<u>-</u>	<u>-</u>	<u>-</u>	<u>32,904</u>	<u>23.5</u>	<u>24.7</u>	<u>45,536</u>	<u>24.3</u>	<u>55.1</u>
<b>Total</b>	<b><u>98,758</u></b>	<b><u>100.0</u></b>	<b><u>33.2</u></b>	<b><u>140,152</u></b>	<b><u>100.0</u></b>	<b><u>34.0</u></b>	<b><u>187,710</u></b>	<b><u>100.0</u></b>	<b><u>40.4</u></b>

*Notes:*

- For details including the description, traffic source, total traffic volume and market share in 2019 for each type of distribution channels, see “Industry overview — Mobile game industry in the PRC — Analysis of distribution channels of the mobile game industry in the PRC” in this prospectus.
- Our games were distributed through nine mainstream third party App Stores, two smartphone manufacturer App Stores, 24 operators of long-tail channels and 27 operators of game publisher servers with user traffic through advertisement during the Track Record Period.

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The table below sets forth the five largest distribution channels of our games by publishing revenue generated during the Track Record Period:

Distribution channels	Type	Background	Revenue generated <i>RMB'000</i>	% of publishing revenue %
<b>FY2017</b>				
Supplier B	Game publisher server and user traffic through advertisement	See “Our suppliers — Top suppliers” in this section for details	18,654	18.9
Supplier C	Game publisher server and user traffic through advertisement	See “Our suppliers — Top suppliers” in this section for details	16,690	16.9
Supplier A	Game publisher server and user traffic through advertisement	See “Our suppliers — Top suppliers” in this section for details	13,627	13.8
Supplier M	Game publisher server and user traffic through advertisement	A company established in the PRC that engages in the operation and distribution of online games	10,579	10.7
Supplier D	Game publisher server and user traffic through advertisement	See “Our suppliers — Top suppliers” in this section for details	9,639	9.8
			69,189	70.1
<b>FY2018</b>				
Supplier F	Long-tail channels	See “Our suppliers — Top suppliers” in this section for details	21,518	15.4
Supplier G	Mainstream third party App Stores	See “Our suppliers — Top suppliers” in this section for details	20,857	14.9
Supplier H	Game publisher server and user traffic through advertisement	See “Our suppliers — Top suppliers” in this section for details	16,342	11.7
Supplier J	Mainstream third party App Stores	See “Our suppliers — Top suppliers” in this section for details	11,968	8.5
Supplier I	Game publisher server and user traffic through advertisement	See “Our suppliers — Top suppliers” in this section for details	11,437	8.2
			82,122	58.7

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Distribution channels	Type	Background	Revenue generated RMB'000	% of publishing revenue %
<b>FY2019</b>				
Supplier H	Game publisher server and user traffic through advertisement	See “Our suppliers — Top suppliers” in this section for details	47,985	25.6
Supplier G	Mainstream third party App Stores	See “Our suppliers — Top suppliers” in this section for details	22,335	11.9
Supplier I	Game publisher server and user traffic through advertisement	See “Our suppliers — Top suppliers” in this section for details	21,330	11.4
Supplier K	Smartphone manufacturer App Stores	See “Our suppliers — Top suppliers” in this section for details	14,650	7.8
Supplier L	Mainstream third party App Stores	See “Our suppliers — Top suppliers” in this section for details	12,170	6.4
			118,470	63.1
			118,470	63.1

### **Post-launch game operation**

#### *Data analysis capabilities*

For publishing of our self-developed games, we have the ability to continuously collect and analyse a wide array of game data including user registration, user activity, gameplay time and habits, topping-up and purchasing behaviours and progress of skill levels. Such data are collected from client-end with data collection SDK and server-end with collectors dedicated to receiving user data. Moreover, we may also receive user data from our third party publishing service providers such as the distribution channels and payment channels pursuant to the agreements between us. The data collected are stored under cloud servers operated by leading cloud service providers in China and are encrypted and protected with firewall for maximum securities during transmission.

With our user data collection and analysis capabilities, we are able to obtain valuable information as to users’ in-game behavioural patterns, recommend on the timing and types of marketing activities to be introduced, enhance game features and project future player behaviours. By working closely with our game development team, such data analysis results could translate into more effective and well-timed game enhancement and marketing that appeal to our users.

We value the privacy of our users and securities of their information and have implemented a strict internal user data security management policy to protect our users’ confidential information.

#### *Game upgrades and maintenances*

We roll out updates from time to time for our self-developed games based on user feedback and user data collected. Such updates include fixing bugs, upgrading server system, optimising game specifications, introducing game features and in-game activities.

### *User service*

For games which we publish with our SDK through our self-operated platform, we are responsible for handling user consultation and complaints in relation to top-up and payment services. For publishing of our self-developed games, we are also responsible for general user services.

Our dedicated user service team can be reached 24 hours a day, seven days a week through our in-game channel or via our hotline. Upon receipt of an inquiry or complaint from our users, our dedicated user service team would prioritise the enquiry or complaint according to the extent of its impact on the users and us, and the time required to solve it. For more serious problems such as glitches in in-game activities that may escalate into widespread complaints from users, the frontline members of the user service team would report the issue to the development team and third party publishers (where applicable) to devise a solution and public relation strategies.

We believe that a good user service mechanism plays a pivotal role in user retention and differentiating us from other game developers and publishers. During the Track Record Period and up to the Latest Practicable Date, we had not received any material complaint from our users that results in any material adverse effect on our business.

### **Payment processing**

For games we published on our self-operated platform, in order to facilitate purchases of virtual items sold in the games, we partner with various third-party payment channels including major online payment agents to facilitate and streamline the in-game purchase process. During the Track Record Period, we have partnered with two such payment channels for collecting and processing payments from users for games that we published on our self-operated platform inserting our own SDK. These channels offer safe and convenient payment methods for our users such as credit card and online wire transfer and can be linked with users' bank accounts. For our co-published games distributed through the iOS App Store, the iOS App Store requires publishers to use their proprietary payment methods to process in-game purchases. In turn, the iOS App Store is responsible for collecting proceeds from such in-game purchases. For co-published games distributed through third party distribution channels for Android, the respective payment channel engaged are responsible for collecting such proceeds.

### **Our game users**

Our user base consists of all game users that log on and plays our self-developed games that are published by us. Such games are available for download on a free-to-play basis. Therefore, our users are able to play and enjoy such games with discretionary in-game purchases. Also, through our marketing efforts and focus on social interaction, we strive to encourage current users to bring in new users to such games operated by us. Our published self-developed games are in the RPG related genre that are generally targeted at users between the ages of 12 and 35.

The performance of our self-developed games is measured by three key indicators, namely (1) average MAUs, (2) average MPUs, and (3) ARPPU. They are largely affected by the number of games in operation in the relevant period and the popularity of these games. We commenced to publish our self-developed games, namely Hollow Storm\* (虛空風暴) and Princess in Distress\* (公主遇險記) in July 2018 and August 2018, respectively. Hollow Storm\* (虛空風暴) and Princess in Distress\* (公主遇險記) were in their mature stage, which collectively achieved (i) an average MAU of 416,515, an average MPU of 38,847 and an average ARPPU of RMB99.5 in FY2018; and (ii) an average MAU of 420,110, an average MPU of 39,674 and an average ARPPU of RMB86.6 in FY2019. We commenced trial run on Strategem in the Three Kingdoms\* (醉計三國) in December 2019 and recorded MAU of 11,022, MPU of

367 and ARPPU of RMB163.5 during the trial-run, and the game was subsequently launched in February 2020. For details, see “Our games portfolio — Games in operation” in this section. We did not rely on any single user for publishing of our self-developed games.

### **Monetisation and pricing**

While most of our published games are available for download on a free-to-play basis, there is a range of virtual items for sale for users who would like to enhance their gameplay experience. Such virtual items include in-game consumables, features and functionalities such as avatars, cards, privileges, skills tokens and weapons. Through these virtual items, users can enhance the abilities, attractiveness, powers and social interaction of game characters, personalise the game environments and accelerate their progress in our games. These virtual items are often updated to new editions with new functionalities and improved design and graphics to stimulate purchases.

The virtual items can be purchased conveniently and speedily in-game via various payment options. See “Game publishing — Payment processing” in this section.

For third party games, the third party publishers or developers are responsible for setting the price of the virtual items in the games. Our revenue from co-publishing of third party games is generated from receiving service fee for the provision of marketing, promotion, distribution or other related services to the third party publishers in accordance with our co-publishing agreements. The pricing and charging bases of our service fee for co-publishing third party games are determined taking into account of the game genres, target users, estimated co-publishing periods of the games and our expected publishing costs such as marketing and promotion expenses and the revenue sharing with our publishing partners such as distribution channels. For our self-developed games, our revenue is generated from the selling of virtual items to the game users. We are responsible for setting the price of the virtual items of our self-developed games and we set the price of virtual items with reference to the behavioural pattern and purchasing power of targeted users, benefits of the virtual items, expected level of demand for the virtual items, price of similar items offered in comparable games and user feedback during beta testing stages. The prices once set are not generally subject to changes save for that we may occasionally offer discounts to game players for promotions to boost sales.

By introducing virtual items in our self-developed games, we are able to monetise our active user base and generate revenue for our publishing partners and ourselves. Consistent with industry norms, the number of paying users for our free-to-play games account for a relatively small portion of our total number of users. We will continue our efforts in optimising our in-game contents and virtual item design in order to convert more active users into paying users and increase paying users’ in-game spending.

## **GAME DEVELOPMENT AND SALES**

### **Game development**

We commenced our development of mobile games since 2015 and we have expanded to develop a series of games focusing on the RPG and casual game genres. Over the years, we have continued to accumulate the skills and experience in our game development operations with a view to developing well-received and high quality games with strong potential for monetisation.

We are committed to investing in our in-house development of new mobile games and new editions and upgrades of our existing games.

With our experience on developing various genres of games, we are able to build up game development resources such as common code base comprising successful game functionalities and virtual merchandising designs, or similar character designs, art designs, gameplay design or themes that can be applied to multiple projects and thus allowing us to employ scalable game development processes that minimise development effort, as well as allowing us to have the advantage of developing product demonstrations and tests faster than our competitors utilising our resource bank.

Headed by Mr. Qiu Junqing, our development team consisted of 62 employees as at the Latest Practicable Date, 15 of whom had more than five years of experience in the mobile game industry.

Total expenses incurred in our game and software development activities were RMB5.2 million, RMB7.5 million and RMB9.7 million in FY2017, FY2018 and FY2019, respectively, accounting for 4.9%, 5.0% and 5.2% of our revenue for the same periods, respectively. Such expenses mainly relate to staff cost of our research and development team, testing and consultancy fee, subcontracting fee for artistic solution and music production as well as depreciation expenses of relevant equipment. In the course of our game development subject to the arrangement and availability of our staff for each project, we would engage third party producers for improvement of (i) the visual and artistic effect of the game characters and gameplay; and (ii) the audio effect of the game by producing sound and music effect for the game. Our subcontracting fees refer to the service fees paid to the third party producers for the provision of such services which amounted to nil, RMB0.9 million and RMB3.3 million for FY2017, FY2018 and FY2019, respectively.

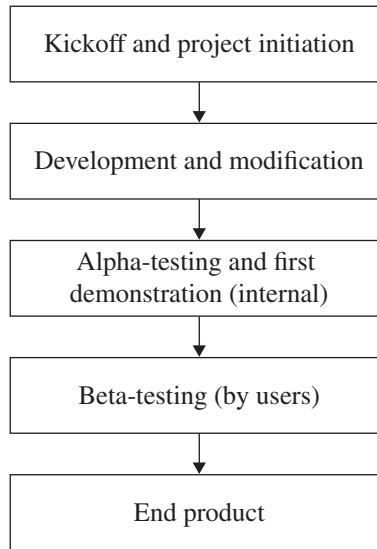
Since the commencement of our mobile game development in 2015 and up to the Latest Practicable Date, we had completed the development of 22 games. We published two games ourselves and sold one game to a third party game developer and publisher during the Track Record Period. We launched an additional self-developed game in February 2020. We target to launch five self-developed games in each of 2021 and 2022 subject to approval of relevant government authorities.

As at the Latest Practicable Date, we had 54 games in our development pipeline of which 45 games were in the development and modification stage and nine games were in alpha-testing and demonstration stage. In our development pipeline, there were 39 RPG games, 11 casual games and four SLG games. See “Our game portfolio — Game pipeline” in this section for details of our publishing schedule.



**Game development cycle**

The following diagram illustrates a simplified process for the launch of a game developed in-house. Our game development process can be divided into five stages. Depending on the type and complexity of the game being developed, the time required for game development varies. In general, our self-developed games take 1 to 1.5 years from project initiation to become an end product.



*Kickoff and project initiation*

Before we initiate a project, we would conduct market research to assess the competitive environment with reference to user data regarding, for example, the ARPU, life time value and retention rate of various genre of mobile games. After we have decided on the direction and type of the game to be developed, we will kick off a new game development project. Our development team will then formulate a detailed game development plan, including game themes and storylines, artistic design, functionalities, virtual merchandising designs, existing comparable games, positioning of the game, risk assessment and allocation of manpower. Once the development plan is approved by our management, the project enters the development stage.

*Development and modification*

Our game development and modification process comprises four major processes including game planning, artistic design, information technology and testing of the game.

During the development process, our development team will test-play the game to look for and fix errors, bugs, lagging, faulty designs, etc. New elements and enrichments to the game will also be added to enhance the overall gameplay experience of end users. This is a continuous process until our management team is satisfied with the performance and the overall playability of the alpha version.

*Alpha testing and first demonstration (internal)*

Once our development team has developed an alpha version of the game, it will be put through internal tests. The test covers key aspects of the game such as progression of player characters' attributes, storyline, in-game activities and artistic design. During alpha testing, the gameplay of test players will be captured and monitored, as well as their feedback collected in order to generate additional feedback for the games and ensure no significant technological issues or software bugs exist. During this stage, it will be assessed whether the design of the game can achieve the effect contemplated in the original proposal, and the game will be revised on a continuous basis if necessary.

*Beta testing (by users)*

During the full-product testing stage, our development team will complete the development of the entire game by arranging testing of the game from external users. For online games, our development team typically invites a group of no fewer than 300 players to test the game and provide feedback on game functionalities and gameplay experiences, so that they can refine the design, resolve technical issues and fix software bugs. Through the beta-testing we could also observe the market reaction to the game.

*End product*

We consider it the end of the development cycle when we have concluded beta-testing and review and we experience no significant technical issues.

Following the end of the alpha or beta testing stage, we can either (i) sell the game to interested purchasers or (ii) publish the game by our publishing team based on our assessment on various factors. For details, see "Game development and sales — Sale of our self-developed games and software" and "Game publishing — Publishing — Publishing of self-developed games" in this section, respectively.

**Sale of our self-developed games and software**

In addition to publishing our self-developed games, we also offer our self-developed games for sale. We may decide to offer the games for sale based on our assessment relating to factors such as the expected income, timing and resources needed for publishing the games ourselves or the existence of any potential purchasers. The selling price of our self-developed games was set at a price not lower than the anticipated revenue from publishing the games ourselves and factoring in the publishing costs and payback period if the games were published by ourselves. We enjoy benefit from the sales of our self-developed games as we could enjoy faster cash inflow and do not need to be responsible for regular upgrades and maintenance of our games. We have sold one of our self-developed games during the Track Record Period, which generated a total revenue of RMB6.7 million, RMB8.0 million and nil in FY2017, FY2018 and FY2019, respectively. We generate revenue from the sale of games by offering games that have been in-house developed to interested purchasers. Such purchasers are normally third party game developers or publishers that we have established and maintained relationships with and are interested in the source code of our games being developed. By direct sales of our self-developed games to the interested purchasers, all proprietary rights of the games will be transferred from us to the purchaser.

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We typically enter into legally binding sale and purchase agreements with our purchasers, major terms of which are set forth below:

- *Intellectual property.* The purchaser shall have the right to register the game and all its assets as its own intellectual property, and the full rights in all the game's assets including the game's source code and user data.
- *Marketing support.* We shall delegate representatives to attend and support purchasers' user survey and marketing activities.
- *Technical support.* We shall provide the purchasers with all the technical documentations in relation to the operation of the games after completion of the sale and purchase. On some occasions, we are required to provide post sales technical support of up to three months. During such period, we are responsible for bug-fixing and assigning technicians to support the purchasers upon request.
- *Payment terms.* We typically receive payment in instalments for games that are sold to purchasers and provide credit period from 30 to 60 days to purchasers for each instalment.

Depending on factors such as complexity of the game, customer requirements and anticipated costs, the terms of the sale and purchase agreements may vary from time to time upon negotiation with our purchasers.

In addition to direct sales of our self-developed games, we may also be commissioned by third party game developers or publishers to develop customised software or modify certain third party game contents. The software may include some management or promotion applications and the content modifications may include code modification, code encryption and art design. We were commissioned by third parties to develop customised software and games and generated revenue of RMB1.8 million, RMB3.1 million and nil in FY2017, FY2018 and FY2019, respectively.

With Mr. Sui's extensive experience in investment consulting industry with particular focus on gaming industry, Mr. Sui became acquainted with the management of various gaming or gaming related companies from attending different industry gatherings, exhibitions and meetings throughout the years, such as the Tencent Global Partner Conference held in 2014, the Nibiru Technology and Entertainment Forum held in 2015, the Global Game Developer Conference held in 2016 and Chinajoy held in 2017. In December 2015, we entered into our first game developing contract. With the experience of developing games, the management of our Group further acquired and established business relationship with various third party publishers and developers through similar industry events throughout the years for purchasing our self-developed games or commissioning us for developing software or game contents.

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The following table sets forth the background of our customers which purchased our self-developed games or commissioned us for developing customised software or modifying game contents during the Track Record Period.

Customer <sup>(1)</sup>	Background	Purchase of games/ commissioned development	Revenue generated from development and sales of customised software and games		
			FY2017	FY2018	FY2019
			RMB'000	RMB'000	RMB'000
Customer D	A company established in the PRC which engages in game development, and subsidiary of a company listed on the Stock Exchange which engages in game publishing and the market capitalisation of the listed parent company as at the Latest Practicable Date was HK\$5.8 billion	Purchase of one game	6,735 <sup>(2)</sup>	7,982 <sup>(2)</sup>	–
Customer I	A private company established in the PRC which engages in advertising services and the development and operation of online games	Commissioned development of games and software	1,770	2,708	–
Customer O	A private company established in the PRC which engages in advertising services	Commissioned development of software	–	372	–
Total			8,505	11,062	–

*Notes:*

- For customers for sale of our self-developed games and software which were also our top customers during the Track Record Period, see “Our customers — Top customers” in this section for details.
- Customer D only purchased one game from us during the Track Record Period. As we recognised revenue based on our performance obligation completed in the respective years, revenue was recognised in both FY2017 and FY2018 for that game.

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To the best knowledge of our Directors, the customers (including their beneficial owner(s) and directors) that purchased our self-developed games or commissioned us for developing customised software and games during the Track Record Period are all Independent Third Parties and do not have any relationship (business, employment or otherwise) with our Group, its subsidiaries (including the PRC Operating Entities), their directors, shareholders, senior management or any of their respective associates, other than being the customers of our Group's sale of self-developed games and software business during the Track Record Period. The terms and selling prices of our sales of self-developed game and commissioned development of customised software and games were determined after arm's length negotiations with our customers based on game type, game genre, game content, game quality and length of development period, which our Directors believe are in line with market practice.

### **OUR CUSTOMERS**

In relation to our game publishing business, our customers include (i) third party publishers who engage us as co-publishers; and (ii) game users who purchase in-game virtual items in our self-developed games or third party games which we co-publish on our self-operated platform inserting our own SDK. For our development and sale of customised software and mobile games business, our customers include (i) third party purchasers of our self-developed games; and (ii) third party game developers and publishers which engage us for commissioned development.

#### **Third party publishers for co-publishing of third party games**

When we co-publish third party games as co-publisher, we are normally engaged by other third party publishers to provide marketing, promotional, distribution and coordination services for their games. During the Track Record Period, we co-published over 320 third party games with over 120 publishing partners. Depending on the arrangements between the third part game publishers, proceeds from the gross billings may be collected by our Group and paid to the third party game publishers after deducting our share on such revenue.

#### **Game users of our self-developed games and third party games inserting our own SDK**

Our self-developed games are published to game users by our publishing team in collaboration with our publishing partners. For third party games which we co-publish on our self-operated platform inserting our own SDK, in-game virtual items which are purchased by game users also generated revenue for us.

#### **Game purchasers and commissioned development customers**

Some of our self developed games are sold to interested purchasers including third party developers or publishers. We may also be engaged by third party developers or publishers for commissioned development.

#### **Top customers**

As at the Latest Practicable Date, we had business relationships with our five largest customers for 11 months to three years. For FY2017, FY2018 and FY2019, the revenues generated from our five largest customers were RMB51.9 million, RMB78.6 million and RMB105.6 million, respectively, representing 48.3%, 52.0% and 56.2% of our revenue for the same periods, respectively. For FY2017, FY2018 and FY2019, the revenues generated from our single largest customer were RMB17.3 million, RMB28.2 million and RMB34.4 million, respectively, representing 16.1%, 18.7% and 18.3% of our revenue for the same periods, respectively.

## BUSINESS

The following tables set forth the details of our major customers during the Track Record Period:

Customer	Transaction amount <i>RMB'000</i>	% of total revenue %	Commencement of business relationship in	Background of the customer	Services/products provided by our Group	Credit term
<b>FY2017</b>						
Customer A	17,285	16.1	March 2017	A company established in the PRC and listed on the NEEQ which engages in the design and development of games and the market capitalisation of the company as at the Latest Practicable Date was RMB1.0 billion	Game publishing services	180 days
Customer B	13,022	12.1	December 2016	A company established in the PRC and listed on the Shenzhen Stock Exchange which engages in the publishing of online and mobile games and the market capitalisation of the company as at the Latest Practicable Date was RMB18.4 billion	Game publishing services	120 days
Customer C	10,765	10.0	May 2017	A private company established in the PRC which engages in game publishing	Game publishing services	90 days
Customer D	6,735	6.3	October 2017	A company established in the PRC which engages in game development, and subsidiary of a company listed on the Stock Exchange which engages in game publishing and the market capitalisation of the listed parent company as at the Latest Practicable Date was HK\$5.8 billion	Game developed by our Group	90 days
Customer E	4,056	3.8	April 2017	A company established in the PRC which engages in game development, and subsidiary of a company listed on the Shenzhen Stock Exchange which engages in television broadcasting and the market capitalisation of the listed parent company as at the Latest Practicable Date was RMB4.5 billion	Game publishing services	180 days
<b>Total</b>	51,863	48.3				

## BUSINESS

Customer	Transaction amount <i>RMB'000</i>	% of total revenue %	Commencement of business relationship in	Background of the customer	Services/products provided by our Group	Credit term
<b>FY2018</b>						
Customer F	28,249	18.7	August 2018	A private company established in the PRC which engages in internet technology and communications system and publishing of online games	Game publishing services	90 days
Customer G	19,053	12.6	June 2018	A private company established in the PRC which engages in game publishing and operation	Game publishing services	180 days
Customer H	12,726	8.4	August 2018	A private company established in the PRC which engages in operational internet cultural activities and publishing of online games	Game publishing services	90 days
Customer I	9,347	6.2	June 2016	A private company established in the PRC which engages in advertising services and the development and operation of online games	Game publishing services and commissioned development services	180 days
Customer J	9,245	6.1	July 2018	A private company established in the PRC which engages in graphic design, advertising services and publishing of online games	Game publishing services	180 days
<b>Total</b>	<b><u>78,620</u></b>	<b><u>52.0</u></b>				
<b>FY2019</b>						
Customer K	34,444	18.3	February 2019	A private company established in the PRC which engages in advertising services and software development	Game publishing services	180 days
Customer L	31,251	16.6	October 2018	A private company established in the PRC which engages in software development	Game publishing services	90 days
Customer M	19,005	10.1	June 2019	A private company established in the PRC which engages in software development and related services	Game publishing services	120 days
Customer F	13,116	7.0	August 2018	A private company established in the PRC which engages in internet technology and communications system and publishing of online games	Game publishing services	90 days
Customer N	7,805	4.2	May 2019	A private company established in the PRC which engages in the development and operation of online games	Game publishing services	90 days
<b>Total</b>	<b><u>105,621</u></b>	<b><u>56.2</u></b>				

## BUSINESS

As at the Latest Practicable Date, none of our Directors, their close associates or any Shareholders of our Company (who or which to the best knowledge of our Directors owned more than 5% of the issued share capital of our Company) had any interest in any of our five largest customers.

### **OUR SUPPLIERS**

In relation to our game publishing business, our publishing team often publish our self-developed and third party games in collaboration with our publishing partners as our suppliers, which include other third party publishers, third party advertising agents, distribution channels operators, payment channels and other service providers.

#### **Other third party publishers**

For co-publishing of third party games, in order to leverage the extensive user base and the marketing and promotion capability of other third party publishers, we may sometimes subcontract some of our publishing responsibilities to them and engage them to co-publish our third party games with us.

#### **Advertising agents**

We seek to expand our user base through placing advertisements for our published games in online media platforms in collaboration with various advertising agents. During the Track Record Period, we typically entered into agreements with our advertising agents with a term between one to three years.

#### **Distribution channels**

We would engage third party distribution channels to provide distribution services to us where they will insert their payment SDK to the games and be responsible for user log-in, top-up and payment services. We distribute our games through our self-operated platform or other distribution channels including the open platforms operated by leading mobile manufacturers or other Independent Third Party open platforms. For details, see “Game publishing — Game distribution” in this section.

#### **Payment channels**

We partner with two major third-party online payment channels, to collect proceeds from in-game purchases. For details, see “Game publishing — Payment processing” in this section.

#### **Other suppliers**

We engage other suppliers such as server providers which lease their servers for the operation of our online games and storage of user data. We choose our server providers on a variety of factors, including brand name, history of cooperation, research and development capabilities, price and service system and quality.

#### **Top suppliers**

As at the Latest Practicable Date, we had business relationships with our five largest suppliers for one to three years. For FY2017, FY2018 and FY2019, procurement from our five largest suppliers amounted to RMB45.7 million, RMB48.4 million and RMB72.1 million, respectively, representing 71.8%, 55.3% and 67.4% of our total purchase for the same periods respectively. For FY2017, FY2018 and FY2019, our largest supplier contributed RMB12.8 million, RMB12.5 million and RMB30.7 million, representing 20.1%, 14.2% and 28.7% of our total purchase for the corresponding periods respectively.



## BUSINESS

During the Track Record Period, one of our top five suppliers was also our customer, contributing to 17.6%, nil and nil of our total purchase for FY2017, FY2018 and FY2019, respectively and 0.6%, nil and nil of our total revenue in the corresponding periods, respectively. This business partner is engaged in game publishing in China which may act as our upstream publishing partner or act as our publishing service provider for co-publishing different mobile games with us. Our Directors believe it is industry norm for game development and publishing companies to have similar arrangements with its business partners.

The following table sets forth the details of our major suppliers during the Track Record Period:

Supplier	Transaction amount <i>RMB'000</i>	% of total purchase %	Commencement of business relationship in	Background of the supplier	Services/products provided to our Group	Credit term
<b>FY2017</b>						
Supplier A	12,778	20.1	January 2017	A company established in the PRC which engages in the production of television programmes	Game publishing services	90 days
Supplier B	11,200	17.6	December 2016	A company established in the PRC which engages in advertising services, and subsidiary of a company listed on the Shenzhen Stock Exchange that engages in internet marketing	Game publishing services	90 days
Supplier C	8,945	14.1	June 2016	A company established in the PRC which engages in game development	Game publishing services	90 days
Supplier D	7,098	11.2	January 2017	A company established in the PRC which engages in the design, production, distribution and publication of advertisements, and subsidiary of a company listed on the Shenzhen Stock Exchange which engages in construction and landscape architecture	Game publishing services	90 days
Supplier E	5,670	8.9	April 2017	A company established in the PRC which engages in game development	Game publishing services	90 days
<b>Total</b>	<b>45,691</b>	<b>71.8</b>				

## BUSINESS

Supplier	Transaction amount <i>RMB'000</i>	% of total purchase %	Commencement of business relationship in	Background of the supplier	Services/products provided to our Group	Credit term
<b>FY2018</b>						
Supplier F	12,470	14.2	August 2018	A company established in the PRC which engages in the operation of game platforms, and subsidiary of a company listed on the Shanghai Stock Exchange which engages in online media distribution	Game publishing services	180 days <sup>(1)</sup>
Supplier G	11,460	13.1	July 2018	A company established in the PRC which engages in advertising services, and subsidiary of a company listed on the New York Stock Exchange that engages in search engine operation	Game publishing services	180 days <sup>(1)</sup>
Supplier H	10,990	12.6	June 2018	A company established in the PRC which engages in the development of mobile games	Game publishing services	90 days
Supplier I	7,113	8.1	September 2018	A company established in the PRC which engages in the design, production, distribution and publication of advertisements	Game publishing services	90 days
Supplier J	6,350	7.3	September 2017	A company established in the PRC which engages in the design, production, distribution and publication of advertisements	Game publishing services	180 days <sup>(1)</sup>
<b>Total</b>	<u>48,383</u>	<u>55.3</u>				

## BUSINESS

Supplier	Transaction amount <i>RMB'000</i>	% of total purchase %	Commencement of business relationship in	Background of the supplier	Services/products provided to our Group	Credit term
<b>FY2019</b>						
Supplier H	30,686	28.7	June 2018	A company established in the PRC which engages in the development of mobile games	Game publishing services	90 days
Supplier I	14,114	13.2	September 2018	A company established in the PRC which engages in the design, production, distribution and publication of advertisements	Game publishing services	90 days
Supplier G	12,382	11.6	July 2018	A company established in the PRC which engages in the provision of advertising services, and subsidiary of a company listed on the New York Stock Exchange and whose group is engaged in search engine operation	Game publishing services	180 days <sup>(1)</sup>
Supplier K	7,931	7.4	April 2019	A company established in the PRC which engages in software development and the provision of advertising services	Game publishing services	180 days <sup>(1)</sup>
Supplier L	6,964	6.5	September 2018	A company established in the PRC which engages in mobile game development	Game publishing services	90 days <sup>(1)</sup>
<b>Total</b>	<u>72,077</u>	<u>67.4</u>				

*Note:*

- (1) Supplier F, Supplier G, Supplier J, Supplier K and Supplier L are third party publishing service providers who had provided, among others, payment solution service to our Group to collect in-game sales proceeds from game users on behalf of us. Under such payment solution service, these suppliers are typically required to return the in-game sales proceeds (net of their relevant service fees and the costs deducted by distribution channels and payment channels) to us within 90 or 180 days.

As at the Latest Practicable Date, none of our Directors, their close associates or any Shareholders of our Company (who or which to the best knowledge of our Directors owned more than 5% of the issued share capital of our Company) had any interest in any of our five largest suppliers.

**BUSINESS ACTIVITIES IN COUNTRIES SUBJECT TO INTERNATIONAL SANCTIONS**

The United States and other jurisdictions or organisations, including the European Union, the United Nations and Australia, have comprehensive or broad economic sanctions targeting Sanctioned Countries, or against industry sectors, groups of companies or persons, and/or organisations within such countries. During the Track Record Period, we entered into agreements with third party publishers which were located in China. For FY2017, FY2018 and FY2019, based on accounting records, invoices from our game publishers and other data we collected, our estimated revenue derived from materials in the form of hyperlinks and photographs designated for the Relevant Countries was nil, RMB0.8 million and nil, representing nil, 0.5% and nil of our revenue during the same periods, respectively. Our International Sanctions Legal Advisers performed the following procedures to evaluate our risk of exposure to penalties imposed under International Sanctions laws and regulations:

- (a) reviewing documents provided by us about us, our business operations, marketing efforts, revenues, sales contracts, customer lists, subsidiaries, branches, sales offices and representatives, ownership structure and management;
- (b) reviewing the list of game publisher partners by whom the sales to the Relevant Countries were made during the Track Record Period against the lists of persons and organisations subject to International Sanctions, and confirming that none of these publishers is on such lists; and
- (c) receiving written confirmation from us that except as otherwise disclosed in this prospectus, neither our Group nor any of our affiliates (including any representative office, branch, subsidiary or other entity which forms part of our Group) conducted during the Track Record Period any business dealings in or with any other countries or persons that are subject to International Sanctions.

In particular, during the Track Record Period, we provided advertising services to a customer based in China which involved assisting our customer to run advertisements connected to certain hyperlinks and photographs (all of which were materials prepared and provided by the customers) which were designated for the Relevant Countries, including Iran, through a Chinese third party platform. Pursuant to the Iranian Transactions, our Group generated the Renminbi equivalent (from time to time) of US\$75,831 of revenue over the Track Record Period. Our Group did not assist in the creation of the ad or ad campaign itself, but merely received a copy ready ad from the customer to run on the platform. This represents 0.11% of the total revenue generated by our Group during the Track Record Period.

Each Iranian Transaction was firstly denominated in U.S. dollars in the relevant entries on each invoice, but each invoice was ultimately issued in the Renminbi equivalent of the total U.S. dollar amount. All payments made in relation to the transactions with the respective customers based in China were denominated in Renminbi, and therefore not processed through the U.S. financial system at any point. As advised by our International Sanctions Legal Advisers, the Iranian Transactions are not a potential violation of U.S. sanctions regulations that are applicable to transactions with Iran.

## BUSINESS

By the end of July 2018, all of our sales transactions relating to Iran had been completed. Further, we have no present intention to undertake any future business with or involving Iran, other comprehensively sanctioned countries, persons on the SDN List, or any other business that may expose us to sanctions risks. Furthermore, in our future dealing with customers in Countries subject to International Sanctions of any kind, we will implement internal control measures to minimise our risk exposure to international sanctions.

As advised by our International Sanctions Legal Advisers after performing the procedures set out above, our Group's business activities in the Relevant Countries during the Track Record Period do not appear to implicate any restrictions under International Sanctions. Further, given the scope of our Global Offering and the expected use of proceeds as set out in this prospectus, our International Sanctions Legal Advisers are of the view that the involvement by parties in the Global Offering will not implicate any applicable International Sanctions on such parties, including our Company, our Company's investors, shareholders, the Stock Exchange and its listing committee and group companies, or any person involved in the Global Offering and accordingly, the sanctions risk exposure to our Company, its investors and shareholders, and persons who might, directly or indirectly, be involved in permitting the listing, trading and clearing of our Company's shares (including the Stock Exchange, its listing committee and related group companies) is very low.

Our Directors confirm that we have not been notified of that any International Sanctions will be imposed on us for our sales through distributors to the Countries subject to International Sanctions during the Track Record Period. None of the counterparties are specifically identified on the Specially Designated Nationals and Blocked Persons by OFAC or other restricted parties lists maintained by the European Union, Australia and the United Nations and therefore would not be deemed as sanctioned targets. Such sales through distributors do not involve industries or sectors that are currently subject to International Sanctions and therefore are not deemed to be prohibited activities under the relevant International Sanctions.

Our Directors, based on the advice from our International Sanctions Legal Advisers as highlighted above, are of the view that the risk of sanctions violations as a result of our Group's sales through game publishers to the Relevant Countries during the Track Record Period is remote.

### **Our undertakings and internal control procedures**

We have undertaken to the Stock Exchange that, after the Listing, (1) we will not use the proceeds from the Global Offering, as well as any other funds raised through the Stock Exchange, whether directly or indirectly, to finance or facilitate any activities or businesses with, or for the benefit of, any Countries subject to International Sanctions or any other government, individual or entity sanctioned by the U.S., the European Union, the United Nations or Australia, including, without limitation, any government, individual or entity that is the subject of any OFAC administered sanctions, (2) we will not enter into any future business that would expose our Group, the Stock Exchange, HKSCC, HKSCC Nominees or our Shareholders to any risk of being sanctioned or violating International Sanctions laws and regulations, (3) we will make timely disclosure on the Stock Exchange's website and our own website if we should believe that any of our business would put our Group or our Shareholders at risk of being sanctioned and in our annual reports or interim reports our efforts on monitoring our business exposure to sanctions risks and our business intention relating to the Countries subject to International Sanctions, and (4) we will not use the proceeds from the Global Offering to pay any damages for terminating or transferring any contract that violates International Sanctions. If we were in breach of such undertakings to the Stock Exchange, we would be subject to the risk of possible delisting of our shares on the Stock Exchange.

## BUSINESS

We will continue to monitor and evaluate our business and take know your client and other internal control and risk management measures to protect the interests of our Group and our Shareholders. The following measures have been fully implemented as at the Latest Practicable Date to ensure compliance with the abovementioned undertakings.

- we would evaluate sanctions risks prior to the determination of whether we should embark on any business opportunity in the Countries subject to International Sanctions and/or with Sanctioned Persons. According to our internal control procedures, our international controls department must review and approve all relevant business transaction documents from users or potential users from Countries subject to International Sanctions and Sanctioned Persons. We also have designated staff who are responsible for evaluating any sanctions risks in our overseas operations. All of our designated staff are required to have legal backgrounds and/or relevant experience. The designated staff will review information relating to the counterparty of the contract (such as its identity, shareholdings and the nature of the business) along with the draft business transaction documentation. The designated staff will also check the counterparty against the various lists of restricted parties and countries maintained by the United States, the European Union, Australia or the United Nations, including, without limitation, any government, individual or entity that is the subject of any OFAC-administered sanctions which lists are publicly available, and determine whether the counterparty is, or is owned or controlled by, and/or is financing or facilitating, a person located in any of the Countries subject to International Sanctions or a Sanctioned Person. If any potential sanctions risk is identified, we will seek advice from external international legal advisers with the necessary expertise;
- if necessary, external international legal advisers will provide training programmes relating to the International Sanctions laws to our Directors, our senior management, our legal team and other relevant personnel to assist them in evaluating the potential sanctions risks in our daily operations. Our external international legal advisers will provide the current list of Countries subject to International Sanctions and Sanctioned Persons and entities to our designated staff, who will in turn disseminate such information to our relevant employees; and
- regarding our game publisher customers, we will use our best efforts to ensure in the future that our game publishers shall warrant to us, either in our contracts with such game publishers, or through their delivery of an annual certification to us, that they are complying with the International Sanctions laws in the course of publishing our games.

With regard to the internal control measures set out above, and subject to the full implementation and enforcement of these measures, our Directors are of the view, and the Sole Sponsor concurs, that these measures provide a reasonably adequate and effective framework to assist our Company in identifying and monitoring any material risk relating to International Sanctions laws. Our Directors are also of the view that these measures will provide an adequate and effective framework to assist us in identifying and monitoring any material risk relating to International Sanctions laws so as to protect the interests of our Shareholders and us.

## **OUR TECHNOLOGY INFRASTRUCTURE**

We use our technology infrastructure to integrate and track our business operations.

### **Cloud servers**

Since 2017, we started using cloud servers from reputable cloud service providers for our games to reduce the burden of our servers and operating cost. As at the Latest Practicable Date, we leased 42 servers hosted by leading cloud service providers in China. The leasing and hosting service agreements with the cloud service providers are typically renewable annually. The cloud service providers are responsible for providing server hosting space with stable power supply, IP addresses, broadband internet connection facilities and firewall monitoring services that can meet our requirements. The cloud service providers are also responsible for the technical consulting and supporting services on a 24/7 basis. We are obliged to pay service fees subject to the terms of the leasing and hosting service agreements. We believe that our current cloud server facilities provide us with sufficient capacity to carry out our current operations and are expandable to meet additional demands relatively quickly and with minimum incremental cost.

### **SDK**

We have developed our own SDK module with accounts and payment management functions. Integrated with our SDK module, our games are equipped with various functions including player account registration, account log-in, linking and unlinking of mobile, email and game accounts, and retrieval of account passwords. Our SDK module enables users to choose their preferred payment methods. In addition, our SDK module allows our operating teams to collect and analyse games and player behaviour data so that we can target different categories of users in our promotion strategies and activities, thereby enhancing users' activity level and increasing our game revenue.

## **SALES AND MARKETING**

We implement various marketing and promotional measures to market and promote our brand and our mobile games, including in-game marketing, game fair promotion and online media marketing.

These activities include:

- *In-game marketing:* We organise game player tournaments, in-game battles, leader board ranking and other game player activities to increase users' awareness of our games.
- *Game fair promotion:* We attend popular industry exhibitions such as Chinajoy with the purpose of identifying business opportunities, scouting potential games for publishing and promoting our brand and our own in-house developed games.
- *Online media marketing:* Through placing advertisements on online media platforms, we promote our published games and increase our brand awareness by establishing our brand image with a focus on all aspects of the gaming market. We also rely on word of mouth to promote customer relationship and enlarge our customer base.

## BUSINESS

### EMPLOYEES

As at 31 December 2017, 2018 and 2019 and the Latest Practicable Date, we had 91, 112, 138 and 130 full time employees, respectively. The following table sets forth the number of our employees by function as at the Latest Practicable Date:

<b>Function</b>	<b>Number of employees</b>
Management	4
Research and development	62
Finance	9
Publishing	52
Administration and human resources	3
	<hr/>
Total	<hr/> <b>130</b> <hr/>

We recruit employees primarily through internal and external recommendations and placing online recruitment advertisements. We provide training programmes to our employees, including new hire training for new employees and continuing technical training primarily for our research and development team to enhance their skill and knowledge.

As required by PRC laws and regulations, we contribute to various social security and housing provident funds for our employees. As advised by our PRC Legal Advisers, we were in compliance with applicable laws and regulations related to social insurance and housing provident funds in material aspects during the Track Record Period.

None of our employees are currently represented by labour unions. We believe that we maintain a good working relationship with our employees and we did not experience any labour disputes or any difficulty in recruiting staff for our operations during the Track Record Period.

### COMPETITION

We are an integrated game publisher and developer in China. The online game industry in which we operate is highly competitive, characterised by the frequent introduction of new products and services, limited product lifecycles, evolving industry standards and regulations as well as rapid adoption of technological and product advancements.

We compete with other mobile game publishers on our publishing ability on the basis of a number of factors, including user base, game portfolio and reputation. We expect the competition in the game publishing market to persist and intensify and that we will continue to face challenges in acquiring and retaining users as a result of rising user acquisition costs as well as marketing and advertising costs. We also compete with other mobile game developers on our ability to develop highly engaging online games to expand the lifecycle of online games, assemble and exploit game IPs, retain and expand paying user base, continuously enhance user experience while maintaining brand awareness and reputation, and to forge trusted relationships with major game publishing partners.

Some of our existing and potential competitors have significantly greater financial, technological and marketing resources, larger user base, stronger relationships with principal industry participants and a larger and more diverse portfolio of mobile games of various genres, greater development experience and resources than we do. See “Risk factors — Risks relating to our business and our industry” in this prospectus for details.



## **INTELLECTUAL PROPERTIES**

Our business, in particular the game development operation, is significantly based on the acquisition, creation, use and protection of intellectual properties. Our intellectual properties are mainly in the form of software code and trademarks. We rely on local laws and contractual restrictions to protect our intellectual properties. We enter into confidentiality, proprietary rights assignment, non-compete and non-assignment agreements with our employees, and have confidentiality arrangements with our business partners. We also adopt relevant policy to monitor infringing uses of our intellectual properties by third parties. As at the Latest Practicable Date, we had 71 registered copyrights (excluding those that have been transferred to third parties yet still registered in the name of our subsidiaries) and 26 registered trademarks in China, as well as two registered trademarks in Hong Kong. In addition, we had registered six domain names. For details of the material intellectual property right of our Group, see “Statutory and general information — Further Information about the business of our Company — 10. Intellectual property rights of our Group” in Appendix IV to this prospectus. During the Track Record Period and up to the Latest Practicable Date, we have also obtained IP licences in respect of 19 fiction and two animation copyrights from independent copyright owners pursuant to which our Group is entitled to develop, publish and operate games based on the licensed copyrights.

While we actively take steps to protect our proprietary rights, we cannot be certain that our measures are adequate to prevent the infringement or misappropriation of the intellectual properties created by or licensed to us. Moreover, we cannot be certain that the games that we license or our services do not or will not infringe valid patents, copyrights or other intellectual properties held by third parties. We may be subject to legal proceedings and claims from time to time relating to third parties’ intellectual properties. See “Risk factors — Risks relating to our business and industry — We cannot be certain that our business operations do not or will not infringe on any patents, valid copyrights or other rights held by third parties. We may incur significant legal expenses in case of third parties’ claims” in this prospectus for details.

## **PROPERTIES**

As at the Latest Practicable Date, we did not own any properties and we operated our businesses through four leased properties in China.

<b>No.</b>	<b>Location</b>	<b>Gross floor area</b> <i>sq. m.</i>	<b>Usage</b>	<b>Annualised rental</b> <i>RMB</i>	<b>Expiry of lease</b>
1.	Khorgos, Xinjiang Uygur Autonomous Region, the PRC	59	Office	46,000	March 2021
2.	Beihai, Guangxi Province, the PRC	1,040	Office	120,000	December 2020
3.	Hechi, Guangxi Province, the PRC	517	Office	155,000	February 2021 and April 2021 <sup>(1)</sup>

## BUSINESS

No.	Location	Gross floor area <i>sq. m.</i>	Usage	Annualised rental <i>RMB</i>	Expiry of lease
4.	Khorgos, Xinjiang Uygur Autonomous Region, the PRC	59	Office	29,000	December 2020

*Note:*

- (1) We leased two adjacent premises under separate leases, which will be expiring in February 2021 and April 2021 respectively.

We believe that our leased properties are adequate to meet our current needs, and that we will be able to obtain adequate properties, principally through leasing of additional properties, to accommodate our future expansions.

To the best of our knowledge, all of the landlords are Independent Third Parties.

## INSURANCE

We do not maintain any property insurance policies covering network infrastructure for losses due to fire, earthquake, flood or any other disaster. Consistent with customary industry practice in China, we do not maintain business interruption insurance or key employee insurance for our executive officers. Damage to any of our uninsured facilities or network infrastructure could have a material adverse effect on our results of operations. See “Risk factors — Risks relating to our business and industry — Our lack of insurance could expose us to significant costs and business disruption” in this prospectus. During the Track Record Period, we did not submit any material insurance claims, nor did we experience any business interruptions that had a material adverse effect on our business or financial position.

## ENVIRONMENTAL, HEALTH AND WORKPLACE SAFETY COMPLIANCE

Our business does not involve significant occupational health and safety and environmental matters, other than being in compliance with applicable PRC laws and regulations. During the Track Record Period, our PRC Legal Advisers have advised that we did not experience any material occupational health and safety and environmental incidents and were in compliance with relevant laws and regulations in all material respects.

## BUSINESS

### LICENCES AND PERMITS AND REGISTRATIONS

As advised by our PRC Legal Advisers, we have obtained all licences, permits and registrations which are material for our business operations in China, and such licences, permits and registrations remained in full effect.

The table below sets forth details of our material licences and permits:

Licence/Permit	Holder	Grant date	Granting authority	Expiration date
Value-added Telecommunications Operation Licence* (中華人民共和國增值電信業務經營許可證)	Dinglian Technology	19 January 2018	Communication Administration of Guangxi Zhuang Autonomous Region (廣西壯族自治區通信管理局)	8 June 2022
High-tech Enterprise Certificate* (高新技術企業證書)	Dinglian Technology	23 October 2017	Jointly granted by the Department of Science and Technology, Department of Finance and Department of Inland Revenue of Guangxi Zhuang Autonomous Region (廣西壯族自治區科學技術廳、廣西壯族自治區財政廳、廣西壯族自治區國家稅務局與廣西壯族自治區地方稅務局)	23 October 2020
Registration of Foreign Trade Business Operators* (對外貿易經營者備案登記表)	Dinglian Technology	10 November 2017	Registry of Foreign Trade Business Operators (Luocheng Mulao Autonomous County) (對外貿易經營者備案登記機關(廣西羅城))	Not applicable
Online Culture Business Permit* (網絡文化經營許可證)	Beihai Dinglian	10 July 2018	Department of Culture of Guangxi Zhuang Autonomous Region (廣西壯族自治區文化廳)	9 July 2021
Value-added Telecommunications Operation Licence* (中華人民共和國增值電信業務經營許可證)	Beihai Dinglian	3 February 2019	Communication Administration Bureau of Guangxi Zhuang Autonomous Region (廣西壯族自治區通信管理局)	3 February 2024

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Licence/Permit	Holder	Grant date	Granting authority	Expiration date
Online Culture Business Permit* (網絡文化經營許可證)	Khorgos Dinglian	17 April 2019	Department of Culture and Tourism of Xinjiang Uygur Autonomous Region (新疆維吾爾自治區文化和旅遊廳)	16 April 2022
Value-added Telecommunications Operation Licence* (中華人民共和國增值電信業務經營許可證)	Khorgos Dinglian	6 August 2019	Communication Administration Bureau of Xinjiang Uygur Autonomous Region (新疆維吾爾自治區通信管理局)	6 August 2024

### AWARDS

We have received several awards and recognitions since our establishment in recognition of the success of our mobile game business. The following table sets forth some of the major awards and recognitions we have received:

Year	Award/Accreditation	Award Organisation	Awarded Entity
2017	Innovative Technology Business Award* (科技創新獎—科技創新企業)	China Association for Quality Evaluation (中國質量評價協會)	Dinglian Technology
2017	Innovative Technology Results Award* (科技創新獎—科技創新成果)	China Association for Quality Evaluation (中國質量評價協會)	Dinglian Technology

### LEGAL PROCEEDINGS AND COMPLIANCE

#### Legal proceedings

During the Track Record Period and up to the Latest Practicable Date, we had not been and were not a party to any material legal, arbitral or administrative proceedings and we were not aware of any pending or threatened legal, arbitral or administrative proceedings against us or any of our Directors which could have a material adverse effect on our operations or financial condition.

#### Non-compliance matters

As advised by our PRC Legal Advisers, we had complied with the relevant PRC laws and regulations in all material respects during the Track Record Period and up to the Latest Practicable Date.

#### Compliance with the Notice on Preventing Minors from Indulging in Online Games

On 25 October 2019, the NPPA issued the Notice on Preventing Minors from Indulging in Online Games (《國家新聞出版署關於防止未成年人沉迷網絡遊戲的通知》) (the “**Notice**”) which became effective on 1 November 2019. The Notice set out several requirements on online game operation in relation to minor players. Please see “Regulatory overview — Laws and regulations governing online games industry and business in China — Regulations on the protection of the minors in online games” for details.

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### *For our self-developed games distributed on third party platforms*

For our self-developed games distributed through third party platforms, we do not have direct access to all personal information of players including their age. Nonetheless, we have made enquiry to and have received confirmation from third party publishing channels (which collectively represented 78.3% of our revenue from publishing of self-developed games for the Track Record Period), which confirmed that less than 1.0% of the users of our self-developed games were minors (being persons who are under the age of 18 years old) and less than 1.0% of the gross billings of our self-developed games were attributed from minors during the Track Record Period. As such, our Directors believe that revenue contribution from minors to our self-developed game publishing business is insignificant.

### *For co-published third party games distributed on third party platforms*

As to third party games co-published by us and distributed on third party platforms, we do not involve in the operation of the games such as user registration and top-up and payment services and we do not have direct access to the information relating to minor players of such games. Nonetheless, we have made enquiry to and have received confirmation from third party publishing channels (which collectively represented 67.8% of our revenue from publishing of third parties games for the Track Record Period), which confirmed that less than 1.0% of the users of our co-published third party games were minors and less than 1.0% of the gross billings of our co-published third party games were attributed from minors during the Track Record Period. On the other hand, our Group had generated 20.4% of our revenue from co-publishing of third party games on CPA and CPC bases during the Track Record Period. Taking into consideration that publishing services charged on CPA and CPC basis will not be directly affected by the implementation of the Notice, our Directors believe that the amount of revenue generated from co-publishing of third party games during the Track Record Period that were contributed from minors is insignificant.

### *For games distributed on our self-operated platform*

During the Track Record Period, only 1.1% of total publishing revenue was generated through our self-operated platform and less than 0.1% of which was attributable from minors. As such, our Directors believe that the Notice has no significant impact on our revenue generated through our self-operated platform.

### *Measures to comply with the Notice*

For our self-developed games and games which we distribute on our self-operated platform with our own SDK inserted, we have implemented necessary measures in relation to user registration, user log-in, or top-up payments to comply with the relevant requirements under the Notice, including:

- (i) adopting a mandatory real-name registration system for games downloaded through our self-operated platform which requires player to register his identification card information and contacts (optional) such as mobile number and/or email before the game log in, and placing restrictions on the playing time and topping-up services for users logging in the games without registration under visitor's mode;
- (ii) incorporating restrictions in the topping-up system of our self-operated platform that disallows minors from topping-up amount exceeding the single or monthly limits under the Notice;

## BUSINESS

- (iii) inserting and enhancing program codes into our self-developed games to (a) identify the players' age from their identification card information; and (b) monitor the game time and game duration of minors and automatically disconnect or ban minors from logging in the games when the game time reaches the daily limit or falls within the restricted hours stipulated in the Notice; and
- (iv) introducing internal control measures for third party games distributed on our self-operated platform including to inspect the game system and user agreement and consult with third party publishers to ensure that necessary minors protection measures as required under the Notice (similar to measures stated in (iii) above) have been implemented for all third party games distributed on our self-operated platform.

In addition, we have been exploring further measures to remind users of the targeted age group of our self-developed games such as inserting relevant reminders to the loading page of the games and we will display such reminders per specific requirements set by relevant administrative authorities in the future.

Since the implementation of the Notice and up to the Latest Practicable Date, we have not received any notification, warning, investigation nor has been subject to any fine or penalty or punishment in relation to violation of the Notice.

Our Directors are of the view, and the Sole Sponsor is satisfied, that the above measures are effective in fulfilling the relevant requirements under the Notice.

### *Potential impact on our operations and financial position*

Our Directors consider that the implementation of the Notice has no material impact to our operations or financial position for the following reasons:

- (i) the target game players of the games developed, published or distributed by our Group have principally been adults;
- (ii) during the Track Record Period, the average ARPPU of our self-developed games launched ranged from RMB14.3 to RMB159.2 which were lower than the monthly payment limit of RMB200 for minor users between 8 and 16 years old under the Notice;
- (iii) we have already implemented the necessary measures, such as modifications or enhancements of program codes of game log-in, to comply with the Notice as at the Latest Practicable Date, and such measures have not imposed significant burden on our manpower and financial resources;
- (iv) we co-publish an extensive portfolio of games with wide coverage of game genres and with large number of publishing partners, where we can enjoy the flexibility to select and focus on co-publishing third party games that have not been adversely impacted in terms of gross billings by the Notice; and
- (v) there has been no material adverse change to the financial position of our Group since the implementation of the Notice.

## **RISK MANAGEMENT AND INTERNAL CONTROL**

### **Risk management**

We are exposed to various risks in the operations of our business and we believe that risk management is important to our success. For details, see “Risk factors — Risks relating to our business and industry” in this prospectus. Our Directors oversee and manage the overall risks associated with our operations. We have prepared written terms of reference in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules.

To monitor the ongoing implementation of our risk management policies and corporate governance measures after the Listing, we have adopted or will continue to adopt, among other things, the following risk management measures:

- establish an audit committee to review and supervise our financial reporting process and internal control system. Our audit committee consists of three members, namely Ms. Zhang Chunmei, who serves as chairlady of the committee, Mr. Deng Chunhua and Ms. Chen Nan. For the qualifications and experience of these committee members, see “Directors and senior management” in this prospectus;
- adopt various policies to ensure compliance with the Listing Rules, including but not limited to aspects related to risk management, connected transactions and information disclosure;
- provide anti-corruption and anti-bribery compliance training periodically to our senior management and employees to enhance their knowledge and compliance with the applicable laws and regulations; and
- attend training session by our Directors in respect of the relevant requirements of the Listing Rules and duties of directors of companies listed in Hong Kong.

### **Internal control**

We have engaged an independent internal control consultant to conduct an assessment of our internal control system in connection with the Listing. The internal control consultant has conducted review procedure on our internal control system in certain aspects, including sales, procurement, human resources, financial management and information technology. The internal control consultant conducted its work in August 2018 and provided a number of findings which we have subsequently taken the remedial actions in response to such findings. Among the findings in relation to our internal control policies and procedures, four major issues were identified by the internal control consultant as important, and the details of the remedial actions of which are set out below:

#### **Internal control review findings**

Our Group had not yet appointed a qualified company secretary as required under the Listing Rules to be responsible for the corporate secretarial matters of our Group.

#### **Remedial actions taken**

Our Group has identified Ms. Wan Yin Yee as a potential candidate after the internal control review and appointed Ms. Wan as our company secretary on 3 April 2019. See “Directors and senior management — Company secretary” for details.

## BUSINESS

### Internal control review findings

During the development stage of our self-developed games, the source codes developed by our Group were backed up and stored in our internal server. There was no external server for backing up of our source codes and in the case of any disruption or function failure to our internal server, the source codes may be deleted and unable to be recovered.

Our financial statements were prepared in accordance with the accounting standards in China. We did not hire any financial personnel with relevant experience to prepare consolidated financial statements as required under the Listing Rules.

Our Group had no policy to prohibit employees from downloading and installing software which is not authorised by the management of our Group and browsing inappropriate or illegal webpages on computers in the offices.

### Remedial actions taken

Our Group has developed and implemented a server backup management system. All source codes developed during the development stage are manually uploaded for back up in cloud servers operated by cloud service providers each month since October 2018.

Our Group has hired a financial personnel with relevant experience to prepare consolidated financial statements as required under the Listing Rules on 15 April 2019 for preparing consolidated financial statements for our Group.

Our Group has developed and implemented a checking and registration system on our computers on 1 September 2018, monitoring the usage and managing the data downloaded on our computers.

The internal control consultant performed subsequent follow-up procedures on our internal control system with regard to those actions taken by us and have not identified any material deficiencies in our internal system. After considering the remedial actions we have taken, our Directors are of the view that our internal control system is adequate and effective for our current operations.

We have designated responsible personnel to monitor the on-going compliance of our Company with the relevant PRC laws and regulations that govern our business operations and oversee the implementation of any necessary measures. Meanwhile, we plan to provide our Directors, senior management and relevant employees with continuing training programmes and/or updates regarding the relevant PRC laws and regulations on a regular basis with a view to proactively identify any concerns and issues relating to any potential non-compliance.



## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

### OVERVIEW

Immediately following the completion of the Capitalisation Issue and the Global Offering (without taking into account any Shares that may be issued pursuant to the exercise of the Over-allotment Option and any option that may be granted under the Share Option Scheme), our Company will be owned as to 40.5% by Sun JH. Sun JH is owned as to 100% by Mr. Sui, who is our executive Director and chairman of our Board. Mr. Sui and Sun JH will be our Controlling Shareholders within the meaning of the Listing Rules.

There is no other person who will, immediately following the completion of the Capitalisation Issue and the Global Offering, be directly or indirectly interested in 30% or more of the Shares in issue or have a direct or indirect equity interest in any member of our Group representing 30% or more of the equity in such entity.

### DISCLOSURE PURSUANT TO RULE 8.10 OF THE LISTING RULES

As at the Latest Practicable Date, apart from our Group's business, none of our Controlling Shareholders, Directors and their respective close associates was engaged or had interest in any business which, directly or indirectly, competes or may compete with our Group's principal business, which would require disclosure under Rule 8.10 of the Listing Rules.

### INDEPENDENCE FROM CONTROLLING SHAREHOLDERS

Having considered the following factors, our Directors are satisfied that our Group is capable of carrying on its business independently from our Controlling Shareholders and their respective close associates upon the completion of the Global Offering.

#### Management independence

Our Board comprises seven Directors, including three executive Directors, one non-executive Director and three independent non-executive Directors. Although Mr. Sui, our executive Director and chairman of our Board, is also our Controlling Shareholder, we consider that our Board and senior management will function independently from our Controlling Shareholders because:

- (a) our Board consists of independent non-executive Directors who have extensive experience in corporate management and have been appointed to ensure that the decisions of our Board are made only after due consideration of independent and impartial opinions. Our Directors believe that the balanced mix of Directors with different professional backgrounds and expertise will provide our Company with balanced views and opinions, which are in the interests of our Company and our Shareholders as a whole;
- (b) each of our Directors is aware of his/her fiduciary duties as a Director which require, among others, that he/she acts for the benefit and in the best interests of our Company and do not allow any conflict between his/her duties as a Director and his/her personal interests;
- (c) in the event there is a material potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective associates, the interested Director(s) shall abstain from voting at the relevant Board meetings in respect of such transactions and shall not be counted in the quorum; and
- (d) our Group has an independent senior management team with sufficient industry expertise to carry out our Group's policies and strategies.

## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

### **Operational independence**

Our Group has an independent work force to carry out our operation and holds the licences and qualifications that are essential to carry on our current business, and our Group has sufficient capital, facilities and technology to operate the business independently from our Controlling Shareholders and/or their respective close associates.

Our Group has established its own organisational structure made up of individual departments, each with specific areas of responsibilities.

Our Group does not share any operational resources, such as office premises, sales and marketing and general administration resources with our Controlling Shareholders and/or their close associates. Our Group has also established a set of internal controls to facilitate the effective operation of its business.

In light of the above, our Directors are of the view that our Group is independent from our Controlling Shareholders from the operational perspective.

### **Financial independence**

Our Group has its own financial management system, internal control and accounting systems, accounting and finance department, independent treasury function for cash receipts and payments and the ability to operate independently from our Controlling Shareholders from a financial perspective.

Our Directors believe that our Group is capable of obtaining financing from external sources without reliance on our Controlling Shareholders.

Based on the above, our Directors are of the view that our Group is capable of carrying on our business independently of, and will not place undue reliance on, our Controlling Shareholders and their respective associates after the Listing.

## DIRECTORS AND SENIOR MANAGEMENT

### BOARD OF DIRECTORS

Our Board consists of seven members, comprising three executive Directors, one non-executive Director and three independent non-executive Directors. The duties and powers conferred on our Board include, among other matters:

- performing corporate governance duties;
- convening Shareholders' meetings and reporting to Shareholders;
- implementing Shareholders' resolutions;
- formulating our Company's business plans and investment plans;
- formulating our Company's annual budget and final accounts;
- formulating our Company's proposals for profit distributions and recovery of losses;
- formulating our Company's proposals for the increase or reduction of registered capital; and
- exercising other duties and powers as conferred by the Articles of Association.

Our Board is responsible for and has general powers for the management and conduct of our business.

The following table sets forth details regarding the members of our Board:

Name	Age	Time of joining our Group	Position	Date of appointment as Director	Major duties and responsibilities
Sui Jiaheng (隋嘉恒)	36	August 2015	Chairman of our Board and executive Director	18 April 2018	Responsible for the overall strategic planning and development of our Group and the overall management and operations of our Group
Li Haijun (李海軍)	35	December 2014	Executive Director	3 April 2019	Responsible for game publishing and sales and external business cooperation and collaboration
He Shaoning (何紹寧)	40	December 2014	Executive Director and general manager of our Group	3 April 2019	Responsible for day-to-day business management of our Group
Huang Zhigang (黃志剛)	57	3 April 2019	Non-executive Director	3 April 2019	Responsible for providing advice on strategies to our Group

## DIRECTORS AND SENIOR MANAGEMENT

Name	Age	Time of joining our Group	Position	Date of appointment as Director	Major duties and responsibilities
Zhang Chunmei (張春梅)	36	23 April 2020	Independent non-executive Director	23 April 2020	Responsible for overseeing the management of our Group independently
Deng Chunhua (鄧春華)	43	23 April 2020	Independent non-executive Director	23 April 2020	Responsible for overseeing the management of our Group independently
Chen Nan (陳楠)	35	23 April 2020	Independent non-executive Director	23 April 2020	Responsible for overseeing the management of our Group independently

### EXECUTIVE DIRECTORS

**Mr. Sui Jiaheng (隋嘉恒)**, aged 36, is the chairman of our Board and an executive Director primarily responsible for the overall strategic planning and development of our Group and the overall management and operations of our Group. Mr. Sui joined our Group in August 2015 as the vice general manager (sales) of Dinglian Technology and was appointed as an executive director of Dinglian Technology in November 2015. He was appointed as a Director on 18 April 2018 and was redesignated as the chairman of our Board and an executive Director on 3 April 2019.

Prior to joining our Group, Mr. Sui has over nine years of experience in the consulting industry, where he was exposed to the gaming area and gained substantial skills and knowledge in organising the data collection, analysis and modelling, testing target gaming companies' products, performing forecast of the business development of the companies, as well as giving investment advice to clients. He was a consultant and researcher at Shanghai Hejun Venture Management Consulting Limited\* (上海和君創業管理諮詢有限公司) ("**Shanghai Hejun Consulting**") from September 2004 to June 2006, and worked as a senior consultant and researcher at the company from June 2006 to September 2008. Shanghai Hejun Consulting is principally engaged in market research analysis, business development and data collection. Mr. Sui worked with industries such as technology, entertainment and gaming. During the period from October 2008 to September 2009, Mr. Sui was an assistant to the president of Beijing Hejun Venture Management Consulting Limited\* (北京和君創業管理諮詢有限公司) ("**Beijing Hejun Consulting**"). Beijing Hejun Consulting is principally engaged in the provision of management and investment consulting. Mr. Sui was responsible for providing such consulting services in relation to industries including mining, farming, gaming, and real estate industries. Between September 2009 and February 2011, Mr. Sui was the senior manager of Beijing Hejun Venture Capital Management Limited\* (北京和君創業資本管理有限公司) ("**Beijing Hejun Capital**"). From February 2011 to October 2013, he was the vice president and partner of Beijing Hejun Capital. Beijing Hejun Capital is principally engaged in consultancy services in investment and financial projects of technology and gaming companies. During Mr. Sui's tenure as the vice president and partner of Beijing Hejun Capital, he participated in a number of domestic and foreign financing, restructuring and merger projects. He founded and invested in Beijing Jia Ri Xian Technology Limited\* (北京嘉日鮮科技有限公司), a company principally engaged in innovative information technology in December 2013 and has acted since then as the director.

Mr. Sui graduated from Hoosac School, a high school in New York, the US, in June 2001. He attended Boston University, majoring in management, from January 2002 to May 2004 but did not complete the study to pursue a career in the consulting industry with an exposure to the gaming area.

## DIRECTORS AND SENIOR MANAGEMENT

Mr. Sui was awarded the Top 10 Outstanding Entrepreneurs in the Gaming Industry\* (遊戲行業十大優秀企業家) and the Top 10 Innovative Characters in the Gaming Industry\* (遊戲行業十大創新人物) in November 2017, both jointly issued by the China Enterprise Development Association (中國企業發展協會) and the Whole Country Brand Authentication Alliance (全國品牌認證聯盟). He was also awarded with the Innovative Technology Outstanding Leader Award\* (科技創新卓越領導者獎) and Innovative Technology Outstanding Result Award\* (科技創新成果優秀獎) in December 2017 from the China Association for Quality Evaluation\* (中國質量評價協會).

**Mr. Li Haijun (李海軍)**, aged 35, is an executive Director primarily responsible for game publishing and sales and external business cooperation and collaboration. Mr. Li was appointed as the executive director of Dinglian Technology when Dinglian Technology was established in December 2014. In November 2015, he ceased to be the executive director and since then he has been the vice general manager of Dinglian Technology. He was appointed as director of Dinglian Technology in October 2017. He was appointed as an executive Director on 3 April 2019.

Mr. Li is one of the founders of our Group and has over 12 years of experience in the technology industry. Prior to joining our Group, Mr. Li was a technician and software developer at Luocheng Mulao Autonomous County Chengxin Computer Limited\* (羅城仫佬族自治縣誠信電腦有限責任公司) from December 2006 to March 2009. He was a technician and a research and development team leader at Hechi City Zunxin Accounting Service Limited\* (河池市尊信會計服務有限公司), formerly known as Guangxi Luocheng Tianyun Xinlian Computer Science Limited\* (廣西羅城天韻新聯電腦科技有限公司) from April 2009 to November 2014. During his employment with both of these companies, he was principally engaged in software development, overall construction and maintenance of the company network, technical training and personnel management.

Mr. Li graduated from Nanyang Institute of Technology (南陽理工學院), majoring in applied electronic technology, in July 2006. He was awarded the National Science and Technology Industry Advance Worker Title (全國科技行業先進工作者稱號) jointly by the China Enterprise Development Association (中國企業發展協會) and the Whole Country Brand Authentication Alliance (全國品牌認證聯盟) in November 2017.

**Mr. He Shaoning (何紹寧)**, aged 40, is an executive Director and the general manager of our Group, primarily responsible for the day-to-day business management of our Group. He has been the general manager of Dinglian Technology since December 2014, and has accumulated extensive experience in managing daily operations of Dinglian Technology and is responsible for work related to finance and human resources. He was appointed as director of Dinglian Technology in October 2017. He was appointed as an executive Director and the general manager of our Group on 3 April 2019.

Mr. He is one of the founders of our Group. He has over six years of sales and marketing experience and over four years of business management experience in the mobile game industry. Prior to joining our Group, from January 2002 to April 2007, he worked at Tongyun Business Shopping Mall\* (通運商貿購物中心) as a salesperson. Mr. He served as the vice president and marketing director of Luocheng Mulao Autonomous County Wuyuechun Wine Limited\* (羅城仫佬族自治縣五月春酒業有限公司) from June 2007 to November 2014.

Mr. He graduated from Guangxi Commercial School\* (廣西商業學校), majoring in marketing and sales, in June 1998. He was awarded the Personal Science and Technology Innovation Award (個人科技創新獎) jointly by the China Enterprise Development Association (中國企業發展協會) and the Whole Country Brand Authentication Alliance (全國品牌認證聯盟) in November 2017.

## DIRECTORS AND SENIOR MANAGEMENT

Mr. He was a legal representative and responsible person of the following company at the time of or within 12 months prior to its dissolution:

Company name	Place of incorporation/ establishment	Principal business activity(ies) before dissolution	Position	Means of dissolution	Dissolution approval date
Yizhou Danhe Business Firm (transliterated from 宜州市丹禾商行)	PRC	Pre-packaged food wholesale and retail	Legal Representative and Responsible Person	Dissolved by deregistration	20 January 2016

Mr. He has confirmed that the above company was solvent at the time of its dissolution and so far as he is aware no claim has been or will be made against him as a result of such dissolution.

### NON-EXECUTIVE DIRECTOR

**Mr. Huang Zhigang (黃志剛)**, aged 57, is a non-executive Director primarily responsible for providing advice on strategies to our Group. He joined our Group on 3 April 2019, when he was appointed as a non-executive Director.

Mr. Huang has over 31 years of experience in general management and operations in the electronic manufacturing field. From July 1981 to December 1987, he was a technician and salesman in Longxi Radio Factory\* (龍溪無線電廠). He subsequently gained general management experience in a number of technology companies. From January 1988 to December 1993, he was the general manager in Zhangzhou Jinfan Electric Equipment Limited\* (漳州金帆電器有限公司), a company principally engaged in manufacturing electrical equipment. From January 1993 to January 2003, he served as the general manager in Zhangzhou Dongfang Electronics Limited\* (漳州市東方電子有限公司), a company principally engaged in manufacturing electronic products. From January 2003 to December 2013, he served as the general manager in Zhangzhou Eastern Intelligent Meters Limited\* (漳州市東方智能儀表有限公司), a company principally engaged in manufacturing measuring and testing instruments. Since January 2013, he has been the chairman and president of Zhangzhou Eastern Technology Group (東方科技集團(漳州)有限公司), which is principally engaged in manufacturing measuring and testing instruments.

Mr. Huang graduated from Minnan Normal University (閩南師範大學) (formerly known as Zhangzhou Normal College\* (漳州大學師範學院) and Fujian Province Longxi Normal College\* (福建省龍溪師範大專班)), majoring in mathematics, in July 1981. He was admitted as a mid-level electronics engineer by Zhangzhou Professional Title Reform Office\* (漳州市職稱改革辦公室) in January 2016.

Mr. Huang is the brother of Ms. Huang Yuxuan (黃瑜璇), one of the investors of Rui Feng, our Pre-IPO Investor. See “History, Reorganisation and Corporate Structure — Pre-IPO Investments” for more details.

## DIRECTORS AND SENIOR MANAGEMENT

### INDEPENDENT NON-EXECUTIVE DIRECTORS

**Ms. Zhang Chunmei (張春梅)**, aged 36, is an independent non-executive Director primarily responsible for overseeing the management of our Group independently. She joined our Group in 23 April 2020, when she was appointed as an independent non-executive Director.

Ms. Zhang has over nine years of experience in the audit and assurance services field. She worked in ShineWing Certified Public Accountants (信永中和會計師事務所) with the last position as a manager from November 2009 to April 2015. She worked as a manager in Ruihua Certificated Public Accountants (瑞華會計師事務所) from July 2015 to September 2016. Ms. Zhang was a senior manager of the Shenzhen office of Shanghai Certified Public Accountants (上會會計師事務所(特殊普通合夥)) from August 2016 to October 2017 and has been a partner there since October 2017, focusing on auditing of listed companies and financial strategy planning.

Ms. Zhang obtained a bachelor's degree in financial management from Jilin University in July 2008. She qualified as a PRC Certified Public Accountant in July 2012.

**Mr. Deng Chunhua (鄧春華)**, aged 43, an independent non-executive Director primarily responsible for overseeing the management of our Group independently. He joined our Group in 23 April 2020, when he was appointed as an independent non-executive Director.

Mr. Deng has over 20 years of experience in wealth management and investment consultation. From July 1997 to September 2016, he served different positions including as a director of wealth management centre and investment analyst at Sealand Securities Co., Ltd. (國海證券股份有限公司). From October 2016 to December 2017, he served as an assistant to the general manager of the sales team in the Beihai office of China Merchants Securities Co., Ltd. (招商證券股份有限公司), where he advised on wealth management and institutional business. Since June 2018, Mr. Deng has served as an assistant to the chairman and secretary of the board of Beihai Xingshi Carbon Material Technology Limited\* (北海星石碳材料科技有限責任公司), where he assisted in the general management of the company. He has also been appointed as a director of the company since October 2018.

Mr. Deng obtained his bachelor's degree in economics from Guangxi University (廣西大學) in December 2003. He received his master's degree in business management from Guangxi University (廣西大學) in October 2011. He obtained the qualification of securities investment adviser granted by Securities Association of China (中國證券業協會) in June 2014.

Mr. Deng was a legal representative of the following company at the time of or within 12 months prior to its dissolution:

Company name	Place of incorporation/ establishment	Principal business activity(ies) before dissolution	Position	Means of dissolution	Dissolution approval date
Sealand Securities Co Ltd Yulin Luchuan County Tongzheng Road Securities Business Department (transliterated from 國海證券有限責任公司玉林陸川縣通政路證券營業部)	PRC	Securities brokerage business	Legal representative	Dissolved by deregistration	21 April 2011

Mr. Deng has confirmed that the above company was solvent at the time of its dissolution and so far as he is aware no claim has been or will be made against him as a result of such dissolution.

## DIRECTORS AND SENIOR MANAGEMENT

**Ms. Chen Nan (陳楠)**, aged 35, is an independent non-executive Director primarily responsible for overseeing the management of our Group independently. She joined our Group in 23 April 2020, when she was appointed as an independent non-executive Director.

Ms. Chen worked in the Shenzhen office of JunZeJun Law Offices (君澤君律師事務所) as a paralegal from February 2012 to August 2013. She worked in the Shenzhen office of Dentons, a global law firm, as a paralegal from September 2013 to May 2015 and as an associate from June 2015 to May 2017. Ms. Chen is an associate of the Shenzhen office of JunZeJun Law Offices (君澤君律師事務所), and has focused her practice in domestic and foreign investment and financing, mergers and acquisitions of listed companies, foreign investment, and initial public offering since April 2017.

Ms. Chen obtained her bachelor's degree in law from South Central Minzu University (中南民族大學) in June 2008. She obtained her master's degree in constitutional and administrative law from South-Central Minzu University in June 2012. She was admitted as a PRC qualified lawyer in March 2014 by Guangdong Department of Justice (廣東省司法廳).

Each of our Directors (i) did not hold other positions in our Company or other members of our Group as at the Latest Practicable Date; (ii) had no other relationship with any Directors, senior management or substantial or Controlling Shareholders of our Company as at the Latest Practicable Date; and (iii) did not hold any other directorships in listed public companies in the three years prior to the Latest Practicable Date.

As at the Latest Practicable Date, save as disclosed in “Statutory and general information — Further information about Directors and Shareholders — 12. Directors — (d) Interests and/or short positions of Directors in the shares, underlying shares or debentures of our Company” in Appendix IV to this prospectus, each of our Directors did not have any interest in the Shares within the meaning of Part XV of the SFO.

Each of our Directors has confirmed that he does not have any interest in a business apart from ours which competes or is likely to compete, directly or indirectly, with us which is discloseable under Rule 8.10 of the Listing Rules.

To the best of the knowledge, information and belief of our Directors having made all reasonable enquiries, there was no other matter with respect to the appointment of our Directors that needs to be brought to the attention of the Shareholders and there was no other information relating to our Directors that is required to be disclosed pursuant to Rules 13.51(2) of the Listing Rules as at the Latest Practicable Date.



## DIRECTORS AND SENIOR MANAGEMENT

### SENIOR MANAGEMENT

Our senior management, together with our executive Directors, are responsible for the day-to-day management of our business. The table below sets out certain information in respect of the senior management of our Group:

Name	Age	Time of joining our Group	Position	Date of appointment of current position	Major duties and responsibilities
Li Tao (李濤)	39	January 2017	Chief executive officer of our Group	3 April 2019	Responsible for the overall business planning and daily management of our Group, including, among others, coordinating the publishing of online games
Qiu Junqing (邱俊青)	40	January 2017	Head of development team of our Group	3 April 2019	Responsible for managing gaming research and development team of our Group

**Mr. Li Tao (李濤)**, aged 39, is the chief executive officer of our Group. Mr. Li is primarily responsible for the overall business planning and daily management of our Group, including, among others, coordinating the publishing of online games. He joined our Group in January 2017 as the vice general manager of the gaming business department of Dinglian Technology. He was the general manager of the gaming business department of Khorgos Dinglian between January 2018 and January 2019. Since February 2018, Mr. Li has been the chief executive officer of Dinglian Technology.

Mr. Li has over 14 years of experience in marketing through his exposure to the gaming field and management of technology companies. Prior to joining our Group, Mr. Li worked in the marketing department of Guangzhou Jiexun Communication Technology Limited\* (廣州捷訊通信技術有限公司) from September 2002 to April 2008, with the last position as marketing manager. From July 2008 to January 2011, Mr. Li worked on marketing-related matters at Shenzhen Zhengchuang Technology Limited\* (深圳市徵創科技有限公司), a company principally engaged in game promotion. Mr. Li worked as the chief executive officer at Guangzhou Haoqi Network Technology Limited\* (廣州市覓奇網絡科技有限公司) from November 2011 to July 2013. Mr. Li served as a marketing director of Guangzhou Yinhan Technology Co., Ltd. (廣州銀漢科技有限公司), a company principally engaged in the provision of mobile value-added services, mass online game development and operation services, from August 2013 to May 2014. During the period from June 2014 to November 2014, Mr. Li was a marketing manager of Guangdong Xinghui Tiantuo Interactive Entertainment Limited\* (廣東星輝天拓互動娛樂有限公司) (“**Teamtop**”). Teamtop, a wholly-owned subsidiary of Rastar Group (星輝互動娛樂股份有限公司) whose shares are listed on the Shenzhen Stock Exchange (Stock Code: 300043), is an integrated platform game company principally engaged in the research, development and distribution of internet games. Mr. Li worked as a general manager of Guangzhou Tianhen Network Technology Limited\* (廣州市天痕網絡科技有限公司), a company principally engaged in the information technology services and promotion of games, from July 2015 to July 2016.

Mr. Li obtained his diploma in tourism management from Guizhou University of Commerce (貴州商業高等專科學院) in July 2002.

## DIRECTORS AND SENIOR MANAGEMENT

**Mr. Qiu Junqing** (邱俊青), aged 40, is the head of development team of our Group. Mr. Qiu is primarily responsible for overseeing the game research and development team of our Group. He joined our Group in January 2017 as the head of gaming at Dinglian Technology. Since January 2019, he has been the general manager of the mobile gaming research and development department at Dinglian Technology.

Mr. Qiu has over 12 years of experience in the gaming industry. Prior to joining our Group, he was employed by Shenzhen Shenlao Human Resources Development Limited\* (深圳市深勞人力資源開發有限公司) from July 2006 to April 2010. During the same period, he was dispatched to China Gaming Centre\* (中國遊戲中心) to serve as an operations manager. From September 2010 to January 2012, Mr. Qiu worked as a product engineer at Shenzhen Huaqiang Gaming Software Limited\* (深圳華強遊戲軟體有限公司), where he was involved in the gaming business operation as well as research and development of gaming products. He was the director of research and development at Shenzhen Boma Vector Technology Limited\* (深圳市博碼向量科技有限公司) from February 2012 to June 2014, where he was responsible for overseeing the research and development department and managing gaming development process. From July 2014 to July 2015, Mr. Qiu worked as the operations manager at Shenzhen Lanyue Network Technology Limited\* (深圳市嵐悅網絡科技有限公司), and was primarily responsible for the management of IP game research and development as well as gaming design. Between July 2015 and November 2016, Mr. Qiu was the research and development director of Shenzhen Gaming Light Year Network Technology Limited\* (深圳市遊戲光年網絡科技有限公司), where he was responsible for overseeing the research and development department and managing gaming development process.

Mr. Qiu obtained his bachelor's degree in law from Sichuan University in July 2006.

### COMPANY SECRETARY

**Ms. Wan Yin Yee** (尹燕兒) was appointed as a company secretary of our Company on 3 April 2019. She is primary responsible for the corporate secretarial matters of our Group.

Ms. Wan is a manager of Corporate Services of Tricor Services Limited, a company secretarial services provider which has been engaged by us for company secretarial services. She has over 10 years of experience in the corporate secretarial field and has been providing professional corporate services to Hong Kong listed companies as well as multinational, private and offshore companies.

Ms. Wan is a Chartered Secretary, a Chartered Governance Professional and an Associate of both The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom. Ms. Wan obtained a bachelor degree of Business Administration and Management from University of Huddersfield in November 2007 and further obtained a master degree of Corporate Governance from The Open University of Hong Kong in November 2013.

### STAFF

We maintain good working relations with our staff. We have not experienced any significant problems with the recruitment and retention of experienced employees. In addition, we have not suffered from any material disruption of our normal business operations as a result of labour disputes or strikes.

### Benefits

As required by the PRC regulations on social insurance, our PRC subsidiaries participate in the social insurance schemes operated by the relevant local government authorities which include retirement pension, medical insurance, unemployment insurance, industrial injuries insurance and maternity insurance.

## DIRECTORS AND SENIOR MANAGEMENT

As required by the employment laws in Hong Kong, our Group participates in the mandatory provident fund scheme to provide retirement benefits for our Hong Kong staff. Our Hong Kong staff is also entitled to medical welfare and discretionary bonus provided by our Group.

### Compensation

The aggregated amount of remuneration of our Directors for each of FY2017, FY2018 and FY2019 was approximately RMB215,000, RMB239,000 and RMB460,000, respectively. Details of the arrangement for remuneration are set out in Note 8 to the Accountants' Report in Appendix I to this prospectus. Under such arrangement and pursuant to our Directors' service agreements and letters of appointment referred to in "Statutory and general information — Further information about Directors and Shareholders — 12. Directors — (b) Particulars of Directors' service contracts" in Appendix IV to this prospectus, the aggregate amount of directors' fee and other emoluments payable to our Directors for FY2020 is estimated to be approximately RMB712,000, excluding any discretionary bonuses.

The aggregated amount of salaries and other emoluments, discretionary bonuses and retirement scheme contributions paid by us to the five highest paid individuals of our Group (excluding our Directors) for each of FY2017, FY2018 and FY2019 was approximately RMB1,139,000, RMB1,339,000 and RMB1,371,000, respectively.

Our Directors and senior management receive compensation in the form of salaries, benefits in kind and/or discretionary bonuses relating to the performance of our Group. We also reimburse them for expenses which are necessarily and reasonably incurred for providing services to us or executing their functions in relation to our operations. We regularly review and determine the remuneration and compensation packages of our Directors and senior management. After the Listing, our remuneration committee will review and determine the remuneration and compensation packages of our Directors and senior management with reference to salaries paid by comparable companies, time commitment and responsibilities of our Directors and performance of our Group.

During the Track Record Period, no remuneration was paid by us to, or receivable by, our Directors or the five highest paid individuals as inducement to join or upon joining our Company, or as compensation for loss of office as a director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group. In addition, none of our Directors waived any emolument.

### BOARD COMMITTEE

#### Audit committee

Our Company established an audit committee on 19 June 2020 with its written terms of reference in compliance with the Listing Rules. The primary duties of the audit committee are to review and supervise our financial reporting process and internal control and risk management systems, nominate and monitor external auditors and to provide advice and comments to the Board on matters related to corporate governance.

Our audit committee consists of three members, being Ms. Zhang Chunmei, Mr. Deng Chunhua and Ms. Chen Nan. Ms. Zhang Chunmei currently serves as the chairlady of our audit committee.

#### Remuneration committee

Our Company established a remuneration committee on 19 June 2020 with its written terms of reference in compliance with the Listing Rules. The primary duties of the remuneration committee are to make recommendations on the remuneration of our senior management and to recommend members of the Board.

## DIRECTORS AND SENIOR MANAGEMENT

Our remuneration committee consists of three members, being Mr. Deng Chunhua, Ms. Zhang Chunmei and Ms. Chen Nan. Mr. Deng Chunhua currently serves as the chairman of our remuneration committee.

### **Nomination committee**

Our Company established a nomination committee on 19 June 2020 with its written terms of reference by reference to the code provisions of the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The primary duties of the nomination committee are to make recommendations to our Board regarding candidates to fill vacancies on the Board and/or in senior management.

Our nomination committee consists of three members, being Mr. Sui Jiaheng, Ms. Zhang Chunmei and Mr. Deng Chunhua. Mr. Sui Jiaheng currently serves as the chairman of our nomination committee.

### **SHARE OPTION SCHEME**

We conditionally adopted the Share Option Scheme on 19 June 2020. For details of the Share Option Scheme, please see “Statutory and general information — Other information — 15. Share Option Scheme”, in Appendix IV to this prospectus.

### **COMPLIANCE ADVISER**

Our Company has appointed WAG Worldsec Corporate Finance Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, we will consult the compliance adviser in the following circumstances:

- (1) before the publication of any regulatory announcement, circular or financial report;
- (2) where a transaction, which might be a notifiable or connected transaction, is contemplated including but not limited to share issues and share repurchases;
- (3) where we propose to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or where the business activities, developments or results of operation of our Group deviate from any forecast, estimate, or other information in this prospectus; and
- (4) where the Stock Exchange makes an inquiry of our Company regarding unusual movements in the price or trading volume of the Shares.

The term of appointment of the compliance adviser shall commence on the Listing Date and end on the date on which our Company complies with Rule 13.46 of the Listing Rules in respect of its financial results for the first full financial year commencing after the Listing Date and such appointment may be subject to extension by mutual agreement.

## DIRECTORS AND SENIOR MANAGEMENT

### CORPORATE GOVERNANCE CODE

Our Directors expect that, our Company will fully comply with the applicable code provisions as set forth in the Corporate Governance Code as contained in Appendix 14 to the Listing Rules after listing.

#### **Board diversity policy**

In order to enhance the effectiveness of our Board and to maintain the high standard of corporate governance, we have adopted a board diversity policy which sets out the objective and approach to achieve and maintain diversity of our Board. Pursuant to our board diversity policy, we seek to achieve board diversity through the consideration of various factors such as gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. Upon Listing, our nomination committee will be responsible for reviewing our board diversity policy from time to time to ensure its continued effectiveness. Our implementation of the board diversity policy will be disclosed in our annual reports.

Our Directors have a mix of knowledge and skills, including overall management and strategic development, human resources, financial management and corporate governance. They obtained degrees in various majors including management, applied electronic technology, marketing, mathematics and economics. We have three independent non-executive Directors with different industry backgrounds, representing more than one-third of the members of our Board. Furthermore, our Board has a range of age from the ages of 35 to 57, and two of our Directors are female. Taking into account our current business model and specific needs, as well as the different background of our Directors, the composition of our Board satisfies our board diversity policy.

## SUBSTANTIAL SHAREHOLDERS

### SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following the completion of the Capitalisation Issue and the Global Offering (without taking into account any Shares which may be allotted and issued upon exercise of the Over-allotment Option and the options to be granted under the Share Option Scheme), the following persons will have an interest or short position in our Shares or the underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group:

Name of Shareholder	Capacity/Nature of interest	As at the date of this prospectus		Immediately following the completion of the Capitalisation Issue and the Global Offering	
		<i>Number of Shares or securities held<sup>(1)</sup></i>	<i>Approximate percentage of shareholding</i>	<i>Number of Shares or securities held<sup>(1)</sup></i>	<i>Approximate percentage of shareholding</i>
Mr. Sui <sup>(2)</sup>	Interest in a controlled corporation	50,000,000(L)	50%	162,000,000(L)	40.5%
Sun JH	Beneficial owner	50,000,000(L)	50%	162,000,000(L)	40.5%

*Notes:*

- (1) The letter “L” denotes a person’s long position in our Shares.
- (2) Mr. Sui is the sole shareholder of Sun JH which holds 50,000,000 Shares. Therefore, Mr. Sui is deemed to be interested in Sun JH’s interest in our Shares pursuant to the SFO.

Saved as disclosed in this prospectus, our Directors are not aware of any person who will, immediately following completion of the Capitalisation Issue and the Global Offering (without taking into account any Shares which may be allotted and issued upon exercise of the Over-allotment Option and the options to be granted under the Share Option Scheme), have an interest or short position in our Shares or the underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group. Our Directors are not aware of any arrangement which may result in a change of control of our Company at a subsequent date.

## CONNECTED TRANSACTIONS

### CONTINUING CONNECTED TRANSACTIONS

We have entered into and expect to continue the Contractual Arrangements with our connected persons in our ordinary and usual course of business. Upon the Listing, such transactions disclosed in this section will constitute continuing connected transactions under the Listing Rules.

### NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

#### Contractual Arrangements

##### *Background*

As disclosed in “Contractual Arrangements” in this prospectus, the business operations of our PRC Operating Entities constitute a business prohibited to foreign ownership in the PRC. Therefore, we do not hold any equity interest in our PRC Operating Entities which are held by the Registered Shareholders, namely, Mr. Sui, Mr. Li, Mr. Huang Xin, Mr. Liang Yuezhong, Ms. Shen Shiyin, Mr. Wu Lihui, Mr. Liang Hanjun, Mr. Liang Hong, Mr. Ou Yajie, Mr. Gao Changhai and Mr. Ke Zhenhua. Rather, through the Contractual Arrangements, we effectively control these PRC Operating Entities and are able to derive substantially all of their economic benefits, and we expect to continue to do so. The Contractual Arrangements among Dinglian Technology, the Registered Shareholders and Khorgos Entertainment enable us to: (i) receive substantially all of the economic benefits from our PRC Operating Entities in consideration of the services provided by Khorgos Entertainment; (ii) exercise effective control over our PRC Operating Entities; and (iii) hold an exclusive option to purchase all or part of the equity interests in the PRC Operating Entities when and to the extent permitted by PRC laws and regulations.

The Contractual Arrangements consist of five types of agreements: (a) the Exclusive Option Agreement; (b) the Exclusive Business Cooperation Agreement; (c) the Share Pledge Agreement; (d) the Shareholders’ Rights Entrustment Agreement and the Powers of Attorney (as such terms are defined in “Contractual Arrangements” in this prospectus); and (e) the undertakings executed by spouses of each of the shareholders of Dinglian Technology, as applicable. Please see “Contractual Arrangements” in this prospectus for detailed terms of these agreements.

#### Listing Rules implications

The table below sets forth the connected persons of our Company involved in the Contractual Arrangements and the nature of their connection with our Group. The transactions contemplated under the Contractual Arrangements constitute continuing connected transactions of our Company under the Listing Rules upon Listing.

<b>Name</b>	<b>Connected relationship</b>
Mr. Sui	Mr. Sui is our Controlling Shareholder, the chairman of our Board and an executive Director and is therefore our connected person pursuant to Chapter 14A of the Listing Rules.
Mr. Li	Mr. Li is an executive Director and is therefore our connected person pursuant to Chapter 14A of the Listing Rules.
Dinglian Technology	Dinglian Technology is owned as to 50% by Mr. Sui. Therefore, Dinglian Technology is an associate of Mr. Sui (being a Controlling Shareholder), and is a connected person of our Company under the Listing Rules.

## CONNECTED TRANSACTIONS

### Views of our Directors on the non-exempt continuing connected transaction

Our Directors (including the non-executive Director and 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 the PRC Operating Entities and any member of our Group (“**New Intergroup Agreements**” and each a “**New Intergroup Agreement**”) technically constitute continuing connected transactions under Chapter 14A of the Listing Rules, our Directors consider that, given that our Group is placed in a special situation in relation to the connected transactions rules under the Contractual Arrangements, it would be unduly burdensome and impracticable and would add unnecessary administrative costs to our Company if such transactions are subject to strict compliance with the requirements set out under Chapter 14A of the Listing Rules, including, among others, the announcement and independent shareholders' approval requirements.

### Application for waiver

In view of the Contractual Arrangements, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with (i) the announcement, circular and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of the transactions contemplated under the Contractual Arrangements pursuant to Rule 14A.105 of the Listing Rules, (ii) the requirement of setting an annual cap for the transactions under the Contractual Arrangements under Rule 14A.53 of the Listing Rules, and (iii) the requirement of limiting the term of the Contractual Arrangements to three years or less under Rule 14A.52 of the Listing Rules, for so long as our Shares are listed on the Stock Exchange subject however to the following conditions:

**(a) *No change without independent non-executive Directors' approval***

No change to the Contractual Arrangements (including with respect to any fees payable to Khorgos Entertainment thereunder) will be made without the approval of the independent non-executive Directors.

**(b) *No change without independent Shareholders' approval***

Save as described in paragraph (d) below, no change to the agreements governing the Contractual Arrangements will be made without the approval of our Company's independent shareholders. Once independent shareholders' approval of any change has been obtained, no further announcement or approval of the independent shareholders will be required under Chapter 14A of the Listing Rules unless and until further changes are proposed. The periodic reporting requirement regarding the Contractual Arrangements in the annual reports of our Company (as set out in paragraph (e) below) will however continue to be applicable.



## CONNECTED TRANSACTIONS

**(c) *Economic benefits flexibility***

The Contractual Arrangements shall continue to enable our Group to receive the economic benefits derived by the PRC Operating Entities through (i) our Group's right (if and when so allowed under the applicable PRC laws and regulations) to acquire, all or part of the entire equity interests in Dinglian Technology for nil consideration or the minimum amount of consideration permitted by applicable PRC laws and regulations, (ii) the business structure under which the profit generated by the PRC Operating Entities is substantially retained by our Group, such that no annual cap shall be set on the amount of service fees payable to Khorgos Entertainment by Dinglian Technology 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 Dinglian Technology.

**(d) *Renewal and reproduction***

On the basis that the Contractual Arrangements provide an acceptable framework for the relationship between our Company and its subsidiaries in which our Company has direct shareholding, on the one hand, and the PRC Operating Entities, on the other hand, that framework may be renewed and/or reproduced upon the expiry of the existing arrangements or in relation to any existing or new wholly foreign owned enterprise or operating company (including branch company) engaging in the same business as that of our Group, which our Group might wish to establish when justified by business expediency, without obtaining the approval of the Shareholders, on substantially the same terms and conditions as the existing Contractual Arrangements. The directors, chief executives or substantial shareholders of any existing or new wholly foreign owned enterprise or operating company (including branch company) engaging in the same business as that of our Group which our Group may establish will, upon renewal and/or reproduction of the Contractual Arrangements, however be treated as connected persons of our Company, and transactions between these connected persons and our Company other than those under similar contractual arrangements shall comply with Chapter 14A of the Listing Rules. This condition is subject to relevant PRC laws, regulations and approvals.

**(e) *Ongoing reporting and approvals***

Our Company will disclose details relating to the Contractual Arrangements on an ongoing basis as follows:

- The Contractual Arrangements in place during each financial period will be disclosed in our Company's annual reports and accounts 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 Company's annual reports and accounts for the relevant year that (i) the transactions carried out during such year have been entered into in accordance with the relevant provisions of the Contractual Arrangements and that the profit generated by the PRC Operating Entities has been substantially retained by Khorgos Entertainment, (ii) no dividends or other distributions have been made by Dinglian Technology to the Registered Shareholders which are not otherwise subsequently assigned or transferred to our Group, and (iii) any new contracts entered into, renewed or reproduced between our Group and the PRC Operating Entities during the relevant financial period under paragraph (d) above are fair and

## CONNECTED TRANSACTIONS

reasonable, or advantageous to our Shareholders, 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 Stock Exchange confirming that the transactions have received the approval of our Directors, have been entered into in accordance with the relevant Contractual Arrangements and that no dividends or other distributions have been made by Dinglian Technology to the Registered Shareholders which are not otherwise subsequently assigned or transferred to our Group.
- For the purpose of Chapter 14A of the Listing Rules, and in particular the definition of “connected person”, the PRC Operating Entities will be treated as our Company’s subsidiaries, but at the same time, the directors, chief executives or substantial shareholders of the PRC Operating Entities and their respective associates will be treated as connected persons of our Company (excluding for this purpose, the PRC Operating Entities), and transactions between these connected persons and our Group (including for this purpose, the PRC Operating Entities), other than those under the Contractual Arrangements, will be subject to requirements under Chapter 14A of the Listing Rules.
- The PRC Operating Entities will undertake that, for so long as the Shares are listed on the Stock Exchange, the PRC Operating Entities will provide our Group’s management and our Company’s auditor full access to its relevant records for the purpose of such auditor’s review of the connected transactions. In addition, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver pursuant to Rule 14A.105 of the Listing Rules from strict compliance with (i) the announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules in respect of the transactions contemplated in any New Intergroup Agreements, (ii) the requirement of setting an annual cap for the fees payable by/to any member of our Group to/from the PRC Operating Entities in any New Intergroup Agreements, and (iii) the requirement of limiting the term of any New Intergroup Agreement to three years or less, for so long as the Shares are listed on the Stock Exchange, subject, however, to the conditions that the Contractual Arrangements subsist and that the PRC Operating Entities will continue to be treated as our Company’s subsidiaries, but at the same time, the directors, chief executives or substantial shareholders of the PRC Operating Entities and its associates will be treated as connected persons of our Company (excluding for this purpose, the PRC Operating Entities), and transactions between these connected persons and our Group (including for this purpose, the PRC Operating Entities), other than those under the Contractual Arrangements, will be subject to requirements under Chapter 14A of the Listing Rules. We will comply with the applicable requirements under the Listing Rules and will immediately inform the Stock Exchange if there are any changes to these continuing connected transactions.

## CONNECTED TRANSACTIONS

### CONFIRMATION FROM THE SOLE SPONSOR

Based on our Group's business model and relevant information pertaining to the Contractual Arrangement, the Sole Sponsor is of the view that the Contractual Arrangement is fundamental to our Group's legal structure and business operations. With respect to the term of the Contractual Arrangement being of a duration longer than three years, it is a justifiable and normal business practice to ensure that (i) the financial and operational policies of the PRC Operating Entities can be effectively controlled by Khorgos Entertainment; (ii) Khorgos Entertainment can obtain the economic benefits derived from the PRC Operating Entities; and (iii) possible leakages of assets and values of the PRC Operating Entities can be prevented. Further, the non-exempt continuing connected transactions described above, and for which waivers have been sought, have been entered into in the ordinary and usual course of business of our Group, on normal commercial terms or better, are fair and reasonable and in the interests of our Company and our Shareholders as a whole.

## SHARE CAPITAL

### SHARE CAPITAL

The authorised share capital of our Company is as follows:

<b>Authorised share capital</b>	<b>Nominal value</b> <i>US\$</i>
500,000,000 Shares of US\$0.0001 each	50,000

Assuming the Over-allotment Option is not exercised at all, the issued share capital of our Company immediately following the completion of Capitalisation Issue and Global Offering will be as follows:

<b>Issued share capital</b>	<b>Approximate percentage of issued share capital</b>
	<i>US\$</i> %
100,000,000 Shares in issue as at the date of this prospectus	10,000      25.00
224,000,000 Shares to be issued under the Capitalisation Issue	22,400      56.00
76,000,000 Shares to be issued under the Global Offering	<u>7,600</u> <u>19.00</u>
400,000,000 Shares in total	<u>40,000</u> <u>100.00</u>

Assuming the Over-allotment Option is exercised in full, the issued share capital of our Company immediately following the completion of Capitalisation Issue and the Global Offering will be as follows:

<b>Issued share capital</b>	<b>Approximate percentage of issued share capital</b>
	<i>US\$</i> %
100,000,000 Shares in issue as at the date of this prospectus	10,000      24.10
224,000,000 Shares to be issued under the Capitalisation Issue	22,400      53.98
91,000,000 Shares to be issued under the Global Offering	<u>9,100</u> <u>21.92</u>
415,000,000 Shares in total	<u>41,500</u> <u>100.00</u>

### ASSUMPTIONS

The above tables assume that the Global Offering becomes unconditional.

## SHARE CAPITAL

The above tables take no account of (a) Shares which may be allotted and issued upon the exercise of the options to be granted under the Share Option Scheme, or (b) any Shares which may be allotted and issued or repurchased by our Company pursuant to the General Mandate and the Repurchase Mandate as described below.

### RANKING

The Offer Shares and our Shares that may be issued pursuant to the exercise of the Over-allotment Option will rank *pari passu* in all respects with all other existing Shares in issue as mentioned in this prospectus and, in particular, will be entitled to all dividends and other distributions hereafter declared, paid or made on our Shares after the date of this prospectus.

### SHARE OPTION SCHEME

We conditionally adopted the Share Option Scheme on 19 June 2020. Under the Share Option Scheme, the eligible participants of the scheme, including, among others, directors, full-time employees of our Company or our subsidiaries, may be granted options which entitle them to subscribe for our Shares, when aggregated with options granted under any other scheme, representing initially not more than 10% of our Shares in issue on the Listing Date. Further details of the terms of the Share Option Scheme are summarised in “Statutory and general information — Other information — 15. Share Option Schemes” in Appendix IV to this prospectus.

### GENERAL MANDATE

Our Directors have been granted a general unconditional mandate to allot, issue and deal with, otherwise than by way of rights issue, scrip dividend schemes or similar arrangements providing for allotment of Shares in lieu of the whole or in part of any dividend in accordance with the Articles, or pursuant to the exercise of any options to be granted under the Share Option Scheme, or under the Capitalisation Issue or the Global Offering or upon the exercise of the Over-allotment Option, an aggregate number of Shares not exceeding the sum of: (a) 20% of the aggregate number of issued Shares immediately following the completion of the Capitalisation Issue and the Global Offering (but excluding any Shares which may be allotted and issued upon exercise of the Over-allotment Option or any options to be granted under the Share Option Scheme); and (b) the aggregate number of Shares which may be repurchased by our Company under the Repurchase Mandate.

This General Mandate will expire:

- (i) at the conclusion of our Company’s next annual general meeting; or
- (ii) upon the expiry of the period within which our Company is required by any applicable law or the Memorandum and Articles of Association to hold its next annual general meeting; or
- (iii) when varied, revoked or renewed by an ordinary resolution of our Shareholders in general meeting,

whichever occurs first.

For further details of the General Mandate, see “Statutory and General Information — Information about our Company — 3. Resolutions in writing of our Shareholders passed on 19 June 2020” in Appendix IV to this prospectus.

## SHARE CAPITAL

### REPURCHASE MANDATE

Our Directors have been granted a general unconditional mandate to exercise all of the powers of our Company to repurchase Shares with an aggregate nominal value of not more than 10% of the aggregate nominal amount of the share capital of our Company in issue, as enlarged by the Capitalisation Issue and the Global Offering (but excluding any Shares of our Company which may be issued pursuant to the Over-allotment Option).

This Repurchase Mandate relates only to repurchases made on the Stock Exchange or on any other stock exchange on which our Shares are listed (and which is recognised by the SFC and the Stock Exchange for this purpose) and which are made in accordance with all applicable laws and the requirements of the Listing Rules. Further information required by the Stock Exchange to be included in this prospectus regarding the repurchase of Shares is set out in “Statutory and general information — Information about our Company — 7. Securities repurchase mandate” in Appendix IV to this prospectus.

This Repurchase Mandate will expire:

- (i) at the conclusion of our Company’s next annual general meeting; or
- (ii) upon the expiry of the period within which our Company is required by any applicable law or the Memorandum and Articles of Association to hold its next annual general meeting; or
- (iii) when varied, revoked or renewed by an ordinary resolution of our Shareholders in general meeting,

whichever occurs first.

For further information about this Repurchase Mandate, please see “Statutory and general information — Information about our Company — 7. Securities repurchase mandate” in Appendix IV to this prospectus.

### CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED

Our Company currently only has one class of shares in issue, namely ordinary shares, each of which ranks *pari passu* with the other shares.

Pursuant to the Cayman Islands Companies Law and the terms of the Memorandum and the Articles, our Company may from time to time by ordinary resolution of Shareholders: (i) increase its capital; (ii) consolidate and divide its capital into Shares of larger amount; (iii) divide its Shares into several classes; (iv) sub-divide its Shares into Shares of smaller amount; and (v) cancel any Shares which have not been taken. In addition, our Company may, subject to the provisions of the Cayman Islands Companies Law, reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution. For further details, please see “Summary of the constitution of the Company and Cayman Islands Company Law — 2. Articles of Association — (a) Shares — (iii) Alteration of capital” in Appendix III to this prospectus.

## SHARE CAPITAL

Pursuant to the Cayman Islands Companies Law and the terms of the Memorandum and the Articles, all or any of the special rights attached to our Shares or any class of our Shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued Shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of our Shares of that class. For further details, please see “Summary of the constitution of the Company and Cayman Islands Company Law — 2. Articles of Association — (a) Shares — (ii) Variation of rights of existing shares or classes of shares” in Appendix III to this prospectus.

## FINANCIAL INFORMATION

*You should read the following discussion and analysis in conjunction with our audited consolidated financial statements, including the notes thereto, as included in the Accountants' Report set out in Appendix I to this prospectus (the "Financial Information"). Our Financial Information has been prepared in accordance with HKFRSs. You should read the entire Accountants' Report of our Group set out in Appendix I and not merely rely on the information contained in this section.*

*The following discussion and analysis contain certain forward-looking statements that reflect the current views with respect to future events and financial performance. These statements are based on assumptions and analyses made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, whether actual outcomes and developments will meet our expectations and projections depends on a number of risks and uncertainties over which we do not have control. For further information, see "Forward-looking statements" and "Risk factors" in this prospectus.*

### OVERVIEW

We are an integrated game publisher and developer in China with a focus on publishing mobile games in the market of China. We are committed to bringing quality and interactive gameplay experience to game players by drawing upon our experience and expertise in the mobile game industry together with our sound understanding with our publishing partners and game players gained over the years of our operations to develop and publish high-quality and well-customised mobile games. Our Group first commenced its business in 2014 engaging in the sales of computers, computer accessories and electronic products, as well as the development of software and websites in China. We expanded our game development business and started to develop mobile games since 2015 and further tap into mobile games publishing business in 2016, where third party publishers engage us as co-publisher to provide publishing services for mobile games developed by third party game developers. In 2018, we also began to publish our self-developed games.

We experienced steady growth in terms of revenue for game publishing during the Track Record Period, which was primarily due to our ability to co-publish an extensive portfolio of mobile games with wide range of game genres and our success in launching two self-developed games in 2018. Our revenue increased from RMB107.3 million for FY2017 to RMB151.2 million for FY2018, and further increased to RMB187.7 million for FY2019. Our profit for FY2017, FY2018 and FY2019 amounted to RMB31.5 million, RMB39.4 million and RMB50.5 million, respectively, representing a CAGR of 26.6% from FY2017 to FY2019.

### BASIS OF PREPARATION

The historical financial information for the Track Record Period has been prepared on the historical cost basis and in accordance with the accounting policies which conform with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA. For information on the accounting policies, please see Note 4 to our consolidated financial statements included in the Accountants' Report in Appendix I to this prospectus.



## FINANCIAL INFORMATION

### Basis of consolidation

The historical financial information incorporates the financial statements of our Company and entities (including structured entities) controlled by our Company and its subsidiaries. Control is achieved when our Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from our involvement with the investee; and
- has the ability to use our power to affect our returns.

Our Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When our Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. Our Group considers all relevant facts and circumstances in assessing whether or not our Group's voting rights in an investee are sufficient to give it power, including:

- the size of our Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by our Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that our Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when our Group obtains control over the subsidiary and ceases when our Group loses control of the subsidiary. Specially, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statements of profit or loss and other comprehensive income from the date our Group gains control until the date when our Group ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with our Group's accounting policies.

All intragroup assets, liabilities, equity, income, expenses and cash flows relating to transactions between members of our Group are eliminated in full on consolidation.

### BASIS OF PRESENTATION

Our Company was incorporated in the Cayman Islands on 18 April 2018 as an exempted company with limited liability. Our Company is an investment holding company. Our Group is principally engaged in publishing and development of mobile games (the "**Listing Business**") in the PRC. Due to the restrictions imposed by the PRC Laws on foreign ownership of companies engaged in the Listing Business carried out by our Group, our Group conducts a substantial portion of the Listing Business through Dinglian Technology and its subsidiaries (the "**Operating Entities**") while Dinglian Technology

## FINANCIAL INFORMATION

is legally owned by our Registered Shareholders. Our Group does not have any equity interest in the Operating Entities. However, as a result of the Contractual Arrangements, our Group has rights to variable returns from our involvement with the Operating Entities and has the ability to affect those returns through our power over the Operating Entities and is considered to have control over the Operating Entities. Consequently, our Company regards the Operating Entities as indirect subsidiaries.

The consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows of our Group for the Track Record Period include the results, changes in equity and cash flows of the companies comprising our Group as if the current group structure has been in existence throughout the Track Record Period, or since their respective dates of incorporation/establishment, where there is a shorter period. The consolidated statement of financial position of our Group as at 31 December 2017 has been prepared to present the assets and liabilities of the companies now comprising our Group, as if the current group structure has been in existence at those dates taking into account the respective dates of incorporation/establishment, where applicable.

### **PRINCIPAL FACTORS AFFECTING OUR RESULTS OF OPERATIONS**

#### **General conditions affecting the mobile game industry**

The mobile game industry in which we operate is highly competitive, characterised by the frequent introduction of new products and services, limited product lifecycles, evolving industry standards and regulations, rapid adoption of technological and product advancements, as well as price sensitivity on the part of users. As a game publisher, we (i) offer publishing services to our publishing partners for third party games and (ii) publish our self-developed games. As a game developer, we (i) publish or sell our self-developed games and (ii) are commissioned by third party game developers and publishers to develop customised software and games or enhance contents for them. Our continued success depends on our ability to adapt to the rapid changing environment of the mobile game industry and maintain our competitiveness.

#### **Our ability to co-publish an extensive games portfolio**

We generate the majority of our revenue from co-publishing of third party games. Our revenue from co-publishing third party games amounted to RMB98.8 million, RMB107.2 million and RMB142.2 million for FY2017, FY2018 and FY2019, respectively, accounted for more than 70% of our total revenue in each financial period during the Track Record Period.

During the Track Record Period, our publishing team has co-published over 320 third party mobile games of various game genres, including RPG, SLG, casual games and others. Our profound experience in publishing a wide range of mobile game genres enables us to attract business opportunities from third party game publishers. Our financial performance depends on our ability to source games that meet our selection criteria so as to maintain our game portfolio and ensure stable and recurring revenue from game publishing.

## FINANCIAL INFORMATION

### Our relationship with a significant number of game publishers

During the Track Record Period, we have successfully established partnerships with more than 120 mobile game publishing partners including third party publishers as our sources of third party games and third party publishing service providers for providing various types of publishing services to us. We believe such partnerships have contributed to the growth of our game publishing business with a growing portfolio of published games. We consider that well-established partnerships with game publishing partners enable us to have more business opportunities in our future operations to drive sustainable growth.

### Our ability and success in game development

In 2015, we commenced our development of mobile games. Since 2016, we have expanded to develop a series of games focusing in the RPG and casual game genres. As we continue to take advantage of our skills and experience in our game development operation, we believe that we have the ability to continue to develop well-received and high quality games with strong potential for monetisation. Up to the Latest Practicable Date, we have completed the development of 22 proprietary games. During the Track Record Period, we had sold one of our self-developed games to a third party game developer and publisher, and published two of our self-developed games. Our financial performance relies on the successfulness of our game development process and the market reception to our games.

### Publishing related cost

During the Track Record Period, publishing related cost represented a significant proportion of our cost of sales. For FY2017, FY2018 and FY2019, our publishing related cost amounted to RMB63.6 million, RMB87.5 million and RMB107.0 million, respectively, representing 59.3%, 57.9% and 57.0% of our total revenue, respectively. We expect publishing related costs will continue to represent a significant proportion of our cost of sales. Factors that affect publishing related costs include (i) the number of games we publish; (ii) the service fees charged by the third-party publishers and online platforms; and (iii) the handling charges payable to payment channels for payment collections.

The following sensitivity analysis illustrates the impact of hypothetical fluctuations in the changes in publishing related cost on our profit before tax for FY2017, FY2018 and FY2019, assuming all other factors were to remain unchanged:

Changes in publishing related cost	FY2017		FY2018		FY2019	
	Profit before tax <i>HK\$'000</i>	Change in profit before tax %	Profit before tax <i>HK\$'000</i>	Change in profit before tax %	Profit before tax <i>HK\$'000</i>	Change in profit before tax %
+15%	(9,538)	(30.2)	(13,127)	(29.6)	(16,043)	(31.9)
+10%	(6,359)	(20.2)	(8,751)	(19.7)	(10,695)	(21.2)
+5%	(3,179)	(10.1)	(4,376)	(9.9)	(5,348)	(10.6)
-5%	3,179	10.1	4,376	9.9	5,348	10.6
-10%	6,359	20.2	8,751	19.7	10,695	21.2
-15%	9,538	30.2	13,127	29.6	16,043	31.9

## FINANCIAL INFORMATION

### Preferential tax treatment

Our profit attributable to our Shareholders is affected by the level of taxation that we are obliged to pay and the level of preferential tax treatment to which we may be entitled to. During the Track Record Period, Dinglian Technology, Khorgos Dinglian and Beihai Dinglian enjoyed various preferential tax treatments in the PRC. For details, see “Financial information — Description of selected items in consolidated statements of profit or loss and other comprehensive income — Taxation” in this prospectus. For FY2017 and FY2018, our tax expense amounted to RMB20,000 and RMB5.1 million, respectively, and for FY2019, we recorded tax credit amounted to RMB0.2 million. When our Group no longer enjoys such preferential tax treatments in the future, our income tax expenses may increase and our financial performance and financial conditions maybe adversely affected.

### SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

Some of our accounting policies require us to apply estimates and assumptions as well as complex judgement relating to accounting items. The estimates and assumptions we use and the judgements we make in applying our accounting policies have a significant impact on our financial position and operating results. Our management continually evaluates such estimates, assumptions and judgements based on experience and other factors, including industry practices and expectations of future events that are believed to be reasonable under the circumstances. There has not been any material deviation between our management’s estimates or assumptions and actual results, and we have not made any material changes to these estimates or assumptions during the Track Record Period. We do not expect any material changes in these estimates and assumptions in the foreseeable future.

Our significant accounting policies, which are important for an understanding of our financial condition and result of operations, are set forth in detail in Note 4 to the Accountants’ Report in Appendix I to this prospectus. Our critical accounting judgements and estimates that were used in the preparation of our consolidated financial statements are set forth in Note 5 to the Accountants’ Report in Appendix I to this prospectus.

### Application of HKFRS 9, HKFRS 15 and HKFRS 16

For historical financial information of our Group prepared and presented for the Track Record Period, we have consistently adopted accounting policies that conform with the HKFRSs that are effective for our Group’s financial year beginning on 1 January 2019 throughout the Track Record Period, except that our Group adopted HKFRS 9 “Financial Instruments” since 1 January 2018 and applied HKAS 39 “Financial Instruments: Recognition and Measurement” for FY2017, adopted HKFRS 16 “Leases” since 1 January 2019 and applied HKAS 17 “Leases” for the two years ended 31 December 2018. Specifically, our Group has adopted HKFRS 15 “Revenue from Contracts with Customers” on a consistent basis throughout the Track Record Period. Our Directors consider that the application of HKFRS 9 and HKFRS 15 would not have a material impact on our Group’s consolidated financial position and performance during the Track Record Period. In addition, our Directors consider that the adoption of HKFRS 16, as compared to the requirements of HKAS 17, would increase the consolidated assets and consolidated liabilities of our Group, but would not result in a material impact on our Group’s consolidated net assets and financial performance and key ratios (including gearing ratio, current ratio and quick ratio) of our Group. For further details about our accounting policies for financial instruments under HKFRS 9 and HKAS 39, leases under HKFRS 16 and HKAS 17, and revenue recognition under HKFRS 15, see Note 4 to the Accountants’ Report in Appendix I to this prospectus.

## FINANCIAL INFORMATION

### Revenue recognition

Revenue is recognised to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which our Group expects to be entitled in exchange for those goods or services. Specifically, our Group uses a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Our Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to customers.

Control of the asset or services may be transferred over time or at a point in time. Control of the asset or services is transferred over time if:

- our customer simultaneously receives and consumes the benefits provided by our Group’s performance as our Group performs;
- our Group’s performance creates or enhances an asset that our customer controls as our Group performs; or
- our Group’s performance does not create an asset with an alternative use to our Group and our Group has an enforceable right to payment for performance completed to date.

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

Our Group recognises revenue from the following sources namely: (i) co-publishing of third party games; (ii) development and sales of customised software and games; (iii) publishing of self-developed games with other publishing service providers; and (iv) sales of computer equipment and hardware.

#### *(i) Co-publishing of third party games*

Our Group is a co-publisher of mobile games developed by third-party game developers, and earns game publishing service revenue by co-publishing them to the game players through the third party platforms and our Group’s self-operated platform. The games are operated under a free-to-play model whereby game players can play the games free of charge and are charged for the purchase of game tokens or other virtual items via payment channels, such as the various mobile carriers and third party internet payment systems.

## FINANCIAL INFORMATION

*(a) Co-publishing of third party games via third parties platforms*

Our Group is engaged by the game publishers to provide publishing related services, e.g. marketing, promotion, navigating the game players to register and recharge in the game, etc. Proceeds from game tokens or other virtual items are collected by the game developers or game publishers themselves who have the primary responsibility for the mobile game operation. Our Group views such game publishers as our customers and generally charges the game publishers for the publishing related services on a cost-per-click, cost-per-action or cost-per-sales basis, pursuant to which our Group bills the game publishers based on the number of clicks, on actions including downloading, installing, registration, recharging, etc. that game players complete or revenue tracked from the game players. In order to provide such publishing related services to the game publishers, our Group engages other major online platforms to navigate the game players. For details of such charging basis, see “Business — Revenue from publishing business — Third party games”.

As our Group is solely responsible for identifying, contracting with and maintaining the relationship of the other major online platforms, the service fees charged by the other online platforms are included in cost of sales.

Revenue is recognised over time when the customer simultaneously receives and consumes the benefits of our Group’s performance over time.

The contracts with customers are with variable consideration and the duration is within one year.

The service fees charged by other platforms are included in cost of sales. Service fees per sales based on pre-agreed percentage of the revenue tracked, service charges of payment channels and service fees per time, action, click, etc., are included in cost of sales when incurred.

*(b) Co-publishing of third party games via our self-operated platform*

Our Group has also entered into revenue sharing agreements with the game publishers. Under these agreements, the game developers or game publishers have the primary responsibilities for the hosting and maintenance of the game servers and providing the game content to the game players and the game developers or game publishers have the right to determine the pricing of in-game virtual items and the specification, modification or any update of the game themselves or as proposed by our Group. Our Group’s responsibilities to the game publishers are publishing, providing payment solution, market promotion service and customer service and maintaining the access portal network. The game developers, game publishers and our Group have responsibilities to ensure the game players can continue to gain access to the mobile game to get the game experience and benefit after the sale of the virtual items. That is, our Group has the implied obligation to provide on-going services to the game players, to maintain the access portal network for certain period of time for the game players to access the game. Therefore, our Group’s service obligations as a co-publisher to the game publishers are also directly linked to each user’s engagement.

## FINANCIAL INFORMATION

Proceeds from selling game tokens or other virtual items are collected via our Group's self-operated platform, shared between our Group and game publishers with the amount payable to game publishers generally calculated based on agreements. Accordingly, our Group records the game publishing service revenue from in-game payments for these games, net of amounts shared by game publishers and recognises revenue over the estimated average playing period of paying player ("**Player Relationship Period**").

Our Group estimates the Player Relationship Period on a game-by-game basis and reassesses such period semi-annually. Revenue from co-publishing of third party games via our self-operated platform is recognised ratably over the Player Relationship Period for a specific game. If there is insufficient data to determine the Player Relationship Period, such as in the case of a newly launched game, our Group estimates the Player Relationship Period based on other similar types of games until the new game has established its own patterns and history.

The contracts with customers are variable consideration and the duration is mainly within one year.

The service fees per time, action, click, etc., are included in selling and marketing expenses when incurred as these service fees are mainly for promotion of self-operated platform instead of obtaining the proceeds from selling game tokens or other virtual items.

### *(ii) Development and sales of customised software and games*

Revenue from sales of games and provision of customisation services is recognised at a point in time when the customer obtains the control of games and services and our Group has present right to payment and the collection of the consideration is probable.

The contracts with customers are fixed consideration and the duration is within one year.

### *(iii) Publishing of self-developed games with other publishing service providers*

Our Group is also engaged in operating self-developed mobile games. The self-developed mobile games are published with other game publishing service providers under various game distribution arrangements. Our Group has also entered into revenue sharing agreements with other game publishing service providers. Under these agreements, in-game fee is firstly collected by the game publishing service providers and then paid to our Group after deduction of predetermined service fees of the game publishing service providers. Our Group has the primary responsibilities for the hosting and maintenance of the game servers and providing the game content to the game players and have the right to determine the pricing of in-game virtual items and the specification, modification or any update of the game themselves. The third party publishing service providers responsibilities to our Group are publishing, providing payment solution, market promotion service and customer service and maintaining the access portal network. Both the game publishing service providers and our Group have responsibilities to ensure the game players can continue to gain access to the mobile game to get the game experience and benefit after the sale of the virtual items. The revenue derived from publishing self-developed games with other publishing service providers are recorded on a gross basis as our Group acts as a principal to fulfil primary obligation related to the game operation. The amounts withheld by the publishing channels and other game publishing service providers are recorded as cost of sales.

## FINANCIAL INFORMATION

Our Group has determined that it is obliged to provide on-going services to the game players. When the game players buy the game tokens, our Group records them as contract liabilities as our Group has not yet passed the control of service. The game players will use the game tokens to purchase consumable virtual items and durable virtual items.

For consumable virtual items, our Group passes the control of consumable virtual items to the game players when they are purchased. Therefore, our Group recognises revenue at a point in time when the consumable virtual items are purchased.

For durable virtual items, the game players enjoy and benefit during the Player Relationship Period after the game players purchase the durable virtual items. It meets the criteria of revenue recognition over time that the customer simultaneously receives and consumes the benefits provided by our Group's performance as our Group performs. Therefore, the revenue is recognised over the Player Relationship Period.

Our Group also estimate the players' unexercised right (the "**breakage**") based on historical consumption pattern and revenue for the expected breakage amount is recognised when the likelihood of the player exercising the remaining rights becomes remote.

The contracts with customers are variable consideration and the duration is within one year.

### *(iv) Sales of computer equipment and hardware*

Revenue from sales of computer equipment and hardware directly to the customers is recognised at a point in time when control of the goods has transferred, being at the point the customer purchases the goods.

### **Principal versus agent**

When another party is involved in providing goods or services to a customer, our Group determines whether the nature of our promise is a performance obligation to provide the specified goods or services itself (i.e. our Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. our Group is an agent).

Our Group is a principal if we control the specified good or service before that good or service is transferred to a customer.

Our Group is an agent if our performance obligation is to arrange for the provision of the specified good or service by another party. In this case, our Group does not control the specified good or service provided by another party before that good or service is transferred to the customer. When our Group acts as an agent, we recognise revenue in the amount of any fee or commission to which we expect to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

### **Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation**

#### *Output method*

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the services transferred to the customer to date relative to the remaining services promised under the contract, that best depict our Group's performance in transferring control of services.



## FINANCIAL INFORMATION

### **Variable consideration**

For contracts that contain variable consideration, our Group estimates the amount of consideration to which it will be entitled using either (a) the expected value method or (b) the most likely amount, depending on which method better predicts the amount of consideration to which our Group will be entitled.

The estimated amount of variable consideration is included in the transaction price only to the extent that it is highly probable that such an inclusion will not result in a significant revenue reversal in the future when the uncertainty associated with the variable consideration is subsequently resolved.

At the end of each reporting period, our Group updates the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period.

### **Incremental costs of obtaining a contract**

Incremental costs of obtaining a contract are those costs that our Group incurs to obtain a contract with a customer that we would not have incurred if the contract had not been obtained.

Our Group recognises such costs as an asset if we expect to recover these costs. The asset so recognised is subsequently amortised to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the assets relate.

Our Group applies the practical expedient of expensing all incremental costs to obtain a contract if these costs would otherwise have been fully amortised to profit or loss within one year.

### **Warranties**

If a customer has the option to purchase a warranty separately, our Group accounts for the warranty as a separate performance obligation and allocates a portion of the transaction price to that performance obligation.

If a customer does not have the option to purchase a warranty separately, our Group accounts for the warranty in accordance with HKAS 37 “Provisions, Contingent Liabilities and Contingent Assets” unless the warranty provides the customer with a service in addition to the assurance that the product complies with agreed-upon specifications (i.e. service-type warranties).

## FINANCIAL INFORMATION

### RESULTS OF OPERATIONS

The following table sets out our consolidated statements of profit or loss for the periods indicated, which is included in the Accountants' Report set out in Appendix I to this prospectus.

	FY2017		FY2018		FY2019	
	<i>RMB'000</i>	<i>% to revenue</i>	<i>RMB'000</i>	<i>% to revenue</i>	<i>RMB'000</i>	<i>% to revenue</i>
<b>Revenue</b>	107,267	100.0	151,214	100.0	187,710	100.0
Cost of sales	(67,267)	(62.7)	(94,199)	(62.3)	(111,897)	(59.6)
<b>Gross profit</b>	40,000	37.3	57,015	37.7	75,813	40.4
Other income	56	0.1	872	0.6	801	0.4
Other gains and losses	–	–	44	0.0	596	0.3
Impairment loss recognised on trade receivables, net	(41)	(0.0)	(97)	(0.1)	(73)	(0.0)
Selling and marketing expenses	(1,666)	(1.6)	(143)	(0.1)	–	–
Administrative expenses	(2,706)	(2.5)	(4,147)	(2.7)	(5,972)	(3.2)
Interest on lease liabilities	–	–	–	–	(6)	(0.0)
Research and development expenses	(4,169)	(3.9)	(4,292)	(2.8)	(9,681)	(5.2)
Listing expenses	–	–	(4,810)	(3.2)	(11,145)	(5.9)
<b>Profit before taxation</b>	31,474	29.4	44,442	29.4	50,333	26.8
Tax (expense) credit	(20)	(0.0)	(5,051)	(3.3)	167	0.1
<b>Profit for the year</b>	<u>31,454</u>	<u>29.4</u>	<u>39,391</u>	<u>26.1</u>	<u>50,500</u>	<u>26.9</u>

## FINANCIAL INFORMATION

### DESCRIPTION OF SELECTED ITEMS IN CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

#### Revenue

We generate revenue from (i) game publishing; (ii) development and sales of customised software and games; and (iii) other business such as sales of computer equipment and hardware. Our revenue was RMB107.3 million, RMB151.2 million and RMB187.7 million for FY2017, FY2018 and FY2019, respectively. The following table sets forth a breakdown of our revenue by segment for the periods indicated:

	FY2017		FY2018		FY2019	
	RMB'000	% of revenue	RMB'000	% of revenue	RMB'000	% of revenue
Game publishing						
– Co-publishing of third party games	98,758	92.1	107,248	70.9	142,174	75.7
– Publishing of self-developed games	–	–	32,904	21.8	45,536	24.3
Development and sales of customised software and games	8,505	7.9	11,062	7.3	–	–
Others	4	0.0	–	–	–	–
<b>Total</b>	<b>107,267</b>	<b>100.0</b>	<b>151,214</b>	<b>100.0</b>	<b>187,710</b>	<b>100.0</b>

#### *Revenue from co-publishing of third party games*

As a game publisher, we receive revenue from co-publishing of mobile games developed by third party game developers to the game players through the third parties' platforms and our self-operated platform.

For co-publishing of third party games, we normally provide marketing, promotional, distribution and coordination services to third party publishers as a co-publisher and assist them to publish their games on various distribution channels, where, subject to the terms of our co-publishing agreements, we may sometimes obtain exclusive rights from third party publishers to promote and publish the games on designated distribution channels. We generate revenue from game publishing on cost-per-sale, cost-per-action and cost-per-click basis, pursuant to which we bill them based on the revenue tracked from the game players, the number of actions including downloading, installing, registration, recharging, etc. that game players complete, or on the number of clicks. For details of such charging basis, see "Business — Revenue from publishing business — Third party games".

For game publishing services via our self-operated platform, we are responsible for publishing, providing payment solution, market promotion service and customer service and maintaining the access portal network, while the game developers or game publishers are responsible for hosting and maintenance of the game servers and providing the game content to the game players, and the game developers or game publishers have the right to determine the pricing of in-game virtual items and the specification, modification or any update of the game themselves or as proposed by us. We generate revenue from our share on the in-game payments for these games across the estimated average playing periods of paying players as our game publishing service revenue.

## FINANCIAL INFORMATION

Our revenue from co-publishing of third party games represents a majority of our total revenue during the Track Record Period. The revenue from co-publishing of third party games amounted to RMB98.8 million, RMB107.2 million and RMB142.2 million for FY2017, FY2018 and FY2019, respectively, accounting for 92.1%, 70.9% and 75.7% of our total revenue for FY2017, FY2018 and FY2019, respectively. The following table sets forth a breakdown of our revenue from co-publishing third party games by genre for the periods indicated:

Genre	FY2017			FY2018			FY2019		
	Number of games co-published	Revenue RMB'000	%	Number of games co-published	Revenue RMB'000	%	Number of games co-published	Revenue RMB'000	%
RPG	49	67,038	67.9	82	49,725	46.4	121	74,621	52.5
SLG	3	3,363	3.4	9	45,822	42.7	46	61,823	43.5
Casual	50	25,919	26.2	10 <sup>(1)</sup>	11,701	10.9	23 <sup>(1)</sup>	5,730	4.0
Others <sup>(2)</sup>	6	2,438	2.5	–	–	–	–	–	–
<b>Total</b>	<b>108</b>	<b>98,758</b>	<b>100.0</b>	<b>101<sup>(3)</sup></b>	<b>107,248</b>	<b>100.0</b>	<b>190<sup>(4)</sup></b>	<b>142,174</b>	<b>100.0</b>

*Notes:*

- (1) It comprises a game platform of casual games.
- (2) It mainly represents arcade games, sports games and applications.
- (3) In FY2018, there were nine RPG games, two SLG games and seven casual games that we had been co-publishing since FY2017.
- (4) In FY2019, there were 42 RPG games, seven SLG games and two casual games that we had been co-publishing since FY2018, and two RPG games that we had been co-publishing since FY2017.

### ***Revenue from publishing of self-developed games***

Apart from publishing mobile games developed by third party game developers, we also derive revenue from publishing our self-developed mobile games. Since 2018, we have published our self-developed games on various distribution channels. We, as game developer, have the primary responsibilities for the hosting and maintenance of the game servers and providing the game content to the game players and have the right to determine the pricing of in-game virtual items and the specifications, modifications and any updates of the games; whereas game publishing service providers are responsible for publishing, providing payment solutions, market promotion services and customer services and maintaining the access portal network. We have entered into revenue sharing agreements with the game publishing service providers, and under the agreements, in-game fees are firstly collected by the game publishing service providers and then paid to us after deduction of their predetermined service fees. Revenue from publishing self-developed games amounted to nil, RMB32.9 million and RMB45.5 million, respectively, accounting for nil, 21.8% and 24.3% of our total revenue for FY2017, FY2018 and FY2019, respectively.

## FINANCIAL INFORMATION

### *Revenue from development and sales of customised software and games*

We have devoted to the development and sales of software and games and provision of customised services. For FY2017, FY2018 and FY2019, we recorded revenue from the sales and development or provision of customisation of eight, three and nil software or games, respectively. Revenue attributable to the development and sales of customised software and games amounted to RMB8.5 million, RMB11.1 million and nil, accounting for 7.9%, 7.3% and nil of our total revenue for FY2017, FY2018 and FY2019, respectively. We did not offer any customised software and games for sale in FY2019 after assessing the factors as shown in “Business — Game development and sales — Sale of our self-developed games and software” in this prospectus. We will continue to assess the said factors and offer the sales of our customised software and games when we consider it is more beneficial to our business.

### *Revenue from other business*

Our other business represents the sales of computer equipment and hardware. The revenue derived from our other business was insignificant to our Group during the Track Record Period.

### **Cost of sales**

For FY2017, FY2018 and FY2019, our cost of sales amounted to RMB67.3 million, RMB94.2 million and RMB111.9 million, respectively. The table below sets forth the breakdown of our cost of sales for the periods indicated:

	FY2017		FY2018		FY2019	
	RMB'000	% of revenue	RMB'000	% of revenue	RMB'000	% of revenue
Publishing related costs	63,589	59.3	87,512	57.9	106,950	57.0
Procurement costs	4	0.0	–	–	–	–
Staff costs	1,826	1.7	4,350	2.9	3,482	1.8
Others	1,848	1.7	2,337	1.5	1,465	0.8
<b>Total</b>	<b>67,267</b>	<b>62.7</b>	<b>94,199</b>	<b>62.3</b>	<b>111,897</b>	<b>59.6</b>

We mainly collaborate with third-party game publishers, online platforms operators, advertising agents and payment channel operators in the PRC to co-publish our games. Our publishing related costs comprise (i) service fees to third parties for game advertisement and distribution and navigating game players to register and pay in our games; and (ii) handling charges to payment channels for payment collections.

Our procurement costs during the Track Record Period mainly comprise the costs of purchasing computer equipment and hardware for resale.

Our staff costs during the Track Record Period represent salaries and other benefits and retirement benefit scheme contributions paid to our staff.

Our other cost of sales during the Track Record Period mainly represent (i) taxes and surcharges; (ii) service fees paid to third party subcontractors for the provision of artistic solutions and music production services in the course of our game development; and (iii) leasing fees of cloud servers.

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Our cost of sales in connection with our sales of customised software and games amounted to RMB1.3 million and RMB1.6 million, respectively for FY2017 and FY2018, comprising (i) staff costs of RMB1.1 million and RMB0.5 million, respectively, incurred in connection with 42 and 18 employees who were assigned to work on the sales and development of games and customised software; and (ii) other costs including taxes and surcharges and service fees paid to subcontractors. In FY2019, we did not record any revenue from the development and sales of customised software and games and no relevant cost was incurred in such period.

### Gross profit and gross profit margin

For FY2017, FY2018 and FY2019, our gross profit was RMB40.0 million, RMB57.0 million and RMB75.8 million, respectively, and our gross profit margin was 37.3%, 37.7% and 40.4%, respectively. The table below sets forth the breakdown of our gross profit and gross profit margin by segment for the periods indicated:

	FY2017		FY2018		FY2019	
	Gross profit RMB'000	Gross profit margin %	Gross profit RMB'000	Gross profit margin %	Gross profit RMB'000	Gross profit margin %
Game publishing						
– Co-publishing of third party games	32,756	33.2	39,446	36.8	50,723	35.7
– Publishing of self-developed games	–	–	8,143	24.7	25,090	55.1
Development and sales of customised software and games	7,244	85.2	9,426	85.2	–	–
Others	–*	11.6	–	–	–	–
<b>Total</b>	<b>40,000</b>	<b>37.3</b>	<b>57,015</b>	<b>37.7</b>	<b>75,813</b>	<b>40.4</b>

\* The amount was less than RMB1,000

### Game publishing

For FY2017, FY2018 and FY2019, our gross profit margin from co-publishing third party games was 33.2%, 36.8% and 35.7%, respectively. Our gross profit margin from co-publishing third party games was relatively stable in the Track Record Period.

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We commenced publishing self-developed games in FY2018 and the gross profit margin was 24.7% and 55.1% in FY2018 and FY2019, respectively. Pursuant to our accounting policies, while our development costs and publishing-related costs of our self-development games are recognised as they incurred, our revenue is recognised when the game tokens sold in our self-developed games are used in exchange for consumable virtual items as well as recognised over the player relationship periods when the game tokens are consumed for durable virtual items. Accordingly, part of the game tokens we sold in game amounting to RMB8.6 million during FY2018 were recognised as contract liabilities as at 31 December 2018 because our Directors considered that our Group had the obligation to provide on-going services to the game players, resulted in a lower gross profit margin from publishing self-developed games for FY2018 as compared to our gross profit margin from co-publishing third party games. In FY2019, our gross profit margin of publishing self-developed games increased since the relevant contract liabilities amounting to RMB8.6 million as at 31 December 2018 were fully recognised in the year.

Among 108, 101 and 190 third party games which we co-published in FY2017, FY2018 and FY2019, we recorded losses in 15, 10 and 25 of these games. Our losses from these games in aggregate amounted to RMB0.4 million, RMB0.2 million and RMB0.2 million in FY2017, FY2018 and FY2019, and only accounted for 0.4%, 0.1% and 0.1% of our total revenue, respectively. We incurred losses in co-publishing certain third party games primarily because of the under-performance of these games. Our game publishing team periodically reviews the results and performance in the course of co-publishing third party games and strategically adjusts the publishing arrangements of under-performed or loss-making games to maintain our profitability.

### *Development and sales of customised software and games*

The gross profit margin of development and sales of customised software and games was 85.2% and 85.2%, respectively, in FY2017 and FY2018. We did not recognise any revenue or gross profit from the development and sales of customised software and games in FY2019. The relatively high gross profit margin in FY2017 and FY2018 mainly reflected the relatively high gross profit margin of the sale of a RPG game we developed to a PRC company that engaged in game development and listed in Hong Kong. The gross profit margin of development and sales of customised software and games remained stable in FY2017 and FY2018.

### **Other income**

Our other income mainly represented (i) bank interest income; (ii) investment income derived from financial products issued by banks in the PRC; and (iii) government grants. Our other income amounted to RMB56,000, RMB0.9 million and RMB0.8 million for FY2017, FY2018 and FY2019, respectively.

### **Selling and marketing expenses**

Our selling and marketing expenses were mainly promotion expenses for our brand and self-operated platform. Marketing expenses directly related to game publishing were included in our cost of sales. For FY2017, FY2018 and FY2019, our selling and marketing expenses were RMB1.7 million, RMB0.1 million and nil, respectively. We incurred relatively higher promotion expenses in FY2017 for placing advertisements and attending game exhibition to promote our self-operated platform which was launched in 2017.

## FINANCIAL INFORMATION

### Administrative expenses

Our administrative expenses primarily consisted of staff costs, travelling and entertainment expenses, depreciation and amortisation expenses, professional fees and rental expenses. For FY2017, FY2018 and FY2019, our administrative expenses amounted to RMB2.7 million, RMB4.1 million and RMB6.0 million, respectively. The following table sets out the breakdown of our administrative expenses for the periods indicated:

	FY2017		FY2018		FY2019	
	RMB'000	%	RMB'000	%	RMB'000	%
Staff costs	512	18.9	1,325	32.0	2,454	41.1
Travelling and entertainment expenses	656	24.2	864	20.8	1,154	19.3
Depreciation and amortisation expenses	19	0.7	85	2.0	948	15.9
Professional fees	921	34.0	1,095	26.4	593	9.9
Rental expenses	103	3.9	321	7.7	137	2.3
Others	495	18.3	457	11.1	686	11.5
<b>Total</b>	<b>2,706</b>	<b>100.0</b>	<b>4,147</b>	<b>100.0</b>	<b>5,972</b>	<b>100.0</b>

### Research and development expenses

Expenditure on research activities that meet the recognition criteria is capitalised as intangible assets and is then recognised as cost of sales when our title is transferred. The remaining expenditure on research activities which does not meet the recognition criteria is recognised as research and development expenses as incurred. The major components of our research and development expenses were staff costs, service fees paid to third party subcontractors for provision of artistic solutions, music production and testing services and consultancy fees. For FY2017, FY2018 and FY2019, we incurred research and development expenses of RMB4.2 million, RMB4.3 million and RMB9.7 million, respectively. The following table sets out the breakdown of our research and development expenses for the periods indicated:

	FY2017		FY2018		FY2019	
	RMB'000	%	RMB'000	%	RMB'000	%
Staff costs	3,214	77.1	4,098	95.5	5,530	57.1
Subcontracting fees	–	–	–	–	3,254	33.6
Others	955	22.9	194	4.5	897	9.3
<b>Total</b>	<b>4,169</b>	<b>100.0</b>	<b>4,292</b>	<b>100.0</b>	<b>9,681</b>	<b>100.0</b>



## FINANCIAL INFORMATION

### Taxation

Taxation primarily comprised Hong Kong profits tax and PRC enterprise income tax (“EIT”). The following table sets forth our taxation during the periods indicated:

	FY2017 <i>RMB'000</i>	FY2018 <i>RMB'000</i>	FY2019 <i>RMB'000</i>
<b>Hong Kong Profits Tax:</b>			
Current tax	20	–	–
Overprovision in prior years	–	(5)	–
	20	(5)	–
<b>EIT:</b>			
Current tax	–	5,061	–
Overprovision in prior years	–	(5)	–
	–	5,056	–
Deferred taxation	–	–	(167)
Total	20	5,051	(167)

Under the Law of the PRC on Enterprise Income Tax (the “EIT Law”) and Implementation Regulations of the EIT Law, the tax rate of the PRC subsidiaries is 25%.

Pursuant to relevant regulations issued by the SAT, the Ministry of Finance, and/or other governmental authorities, qualified software enterprises shall be exempted from EIT for two years from the first profit-making year and shall be taxed at half of the statutory tax rate from the third to the fifth year. Dinglian Technology first made a profit in 2016, but was not qualified as a software enterprise until 2017. Thus our Directors consider that there is uncertainty whether the aforesaid preferential EIT policy should be taken to have started to apply to Dinglian Technology in 2016 or 2017. For prudence sake, when considering the applicable EIT rates applicable in the relevant years for the purpose preparing the consolidated financial information as set out in the Accountants’ Report in Appendix I to this prospectus, our Directors have considered both scenarios where (i) the preferential EIT policy started to apply in 2016; and (ii) the preferential EIT policy started to apply in 2017, and have applied the EIT rate whichever was higher in these two scenarios in a particular year. Accordingly, the EIT rates adopted by our Directors for calculating the amount of EIT payable for the purpose of preparing the consolidated financial information as set out in the Accountants’ Report in Appendix I to this prospectus for the five years from 2016 to 2020 were 25%, 0%, 12.5%, 12.5% and 12.5%, respectively.

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On the other hand, the local tax authority in Luocheng Mulao Autonomous County has confirmed that Dinglian Technology was qualified as a software enterprise in 2017 and it was entitled to EIT exemption for 2017 and 2018 and preferential tax rate of 12.5% for 2019. Thus Dinglian Technology has actually calculated and/or paid its EIT for the five years from 2016 to 2020 based on the EIT rates of 25%, 0%, 0%, 12.5% and 12.5% respectively. Accordingly, a provision of RMB5.1 million of EIT was made for Dinglian Technology as at 31 December 2018 to account for the EIT payable based on the preferential tax rate of 12.5% for FY2018 for the purpose of preparing the consolidated financial information as set out in the Accountants' Report in Appendix I to this prospectus, whereas no EIT was eventually paid for FY2018 as the EIT exemption was applicable to FY2018 based on the confirmation from the local tax authority. The RMB2.2 million EIT paid in FY2019 represents the provisional EIT accrued in the first quarter of FY2019. Up to the Latest Practicable Date, Dinglian Technology had not been requested by the local tax authority to pay for any EIT for FY2018.

Pursuant to Cai Shui [2011] No. 112 issued by State Administration of Taxation and the Ministry of Finance, from 1 January 2010 to 31 December 2020, a newly established enterprise which complies with the "Announcement of the preferential enterprise income tax in respect of the two special Kashi and Khorgos economic development zones in Xinjiang Province" is entitled to an EIT exemption for five years, commencing from the first operating revenue-making year. Two subsidiaries of our Group including (i) Khorgos Dinglian which was established in 2017 with operating revenue generated in 2017; and (ii) Khorgos Entertainment which was established in 2018 with operating revenue generated in 2019, complied with the above policy, and accordingly they are entitled to the exemption from EIT until 31 December 2020.

Pursuant to Cai Shui [2011] No. 58 issued by the Ministry of Finance, the General Administration of Customs and the State Administration of Taxation, National Development and Reform Commission Order No.15, Announcement of the State Administration of Taxation [2012] No. 12 and Announcement of the State Administration of Taxation [2015], No. 14, from 1 January 2011 to 31 December 2020, a newly established enterprise which complies with these policies is entitled to 15% preferential tax rate for the period from date of establishment to 31 December 2020. As Beihai Dinglian, a subsidiary of our Group established in 2017, complied with the above policies, it was entitled to 15% preferential EIT rate for the years from 2017 to 2019, and it is expected to continue to enjoy such preferential EIT rate for the year 2020. Furthermore, pursuant to Cai Shui [2008] No.21, Beihai Dinglian is entitled to an EIT exemption attributable to the local government for the year ended 31 December 2018 and the entitlement of this tax benefit is subject to maintaining related supporting documents for inspection for 10 years by respective tax bureau in the PRC.

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. The profits of group entities in Hong Kong not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%. Accordingly, starting from the year ended 31 December 2018, the Hong Kong Profits Tax is calculated at 8.25% on the first HK\$2 million of the estimated assessable profits for the qualifying group entity and at 16.5% on the estimated assessable profits above HK\$2 million. For FY2017, Hong Kong profits tax was calculated at a single flat rate of 16.5% of the estimated assessable profits.

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Our tax expense was RMB20,000 and RMB5.1 million for FY2017 and FY2018, respectively. We recorded tax credit of RMB0.2 million for FY2019. The effective tax rate of our Group was 0.1% and 11.4% for FY2017 and FY2018, respectively. Fluctuations in our effective tax rate during the Track Record Period were primarily attributable to the preferential tax treatment applicable to respective subsidiaries of our Group. Tax credit we recorded in FY2019 mainly represented the tax impact in respect of unused tax losses we recognised as deferred tax assets in the year.

Our Group's taxation payable of RMB5.1 million as at 31 December 2018 principally represented Dinglian Technology's EIT provision for FY2018. Our Group's taxation payable then decreased to RMB2.9 million as at 31 December 2019, primarily reflected provisional EIT for the first quarter of FY2019 of RMB2.2 million paid by Dinglian Technology to the local tax authority in 2019.

As at the Latest Practicable Date, we did not have any dispute with any tax authority.

### **Profit for the year and net profit margin**

Our net profit was RMB31.5 million, RMB39.4 million and RMB50.5 million, representing net profit margin of 29.4%, 26.1%, and 26.9%, for FY2017, FY2018 and FY2019, respectively.

## **PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS**

### **FY2019 compared to FY2018**

#### *Revenue*

Our overall revenue increased by RMB36.5 million or 24.1% from RMB151.2 million for FY2018 to RMB187.7 million for FY2019. Such increase was primarily attributable to the following:

- Revenue from co-publishing third party games increased by RMB35.0 million or 32.6% from RMB107.2 million for FY2018 to RMB142.2 million for FY2019, which primarily reflected the increase in the number of games published from 101 in FY2018 to 190 in FY2019 and partially offset by the decrease in the gross billings and hence the revenue of two war themed SLG games in FY2019.
- Revenue from publishing of self-developed games increased by RMB12.6 million or 38.3% from RMB32.9 million for FY2018 to RMB45.5 million for FY2019 which was attributable to the increase in the number of operating days of two self-developed games, namely Hollow Storm\* (虛空風暴) and Princess in Distress\* (公主遇險記).
- Revenue from development and sales of customised software and games decreased from RMB11.1 million for FY2018 to nil for FY2019 in the absence of relevant sales of customised software and games during FY2019.

#### *Cost of sales*

Our cost of sales increased by RMB17.7 million or 18.8% from RMB94.2 million for FY2018 to RMB111.9 million for FY2019. Such increase in cost of sales was mainly due to the increase in our publishing-related costs by RMB19.4 million or 22.2% attributable to the increase in the number of third party games and self-developed games we published in FY2019; and partially offset by the decrease in our staff costs by RMB0.9 million primarily because no staff cost was incurred for our sales of customised software and games in FY2019.

## FINANCIAL INFORMATION

### ***Gross profit and gross profit margin***

Our gross profit increased by RMB18.8 million or 33.0% from RMB57.0 million for FY2018 to RMB75.8 million for FY2019, which was mainly attributable to the growth of our game publishing business. Our gross profit margin increased from 37.7% for FY2018 to 40.4% for FY2019 primarily due to the increase in gross profit margin of publishing self-developed games as compared to FY2018, as part of the game tokens we sold in game in FY2018, were recognised as contract liabilities in the same year and were fully recognised in FY2019.

### ***Other income***

Our other income decreased by RMB0.1 million or 8.1% from RMB0.9 million for FY2018 to RMB0.8 million for FY2019 mainly due to the decrease in investment income from other financial assets by RMB0.4 million as a result of the decrease in principal amount we invested in financial products issued by banks in the PRC and partially offset by the increase in government grants by RMB0.3 million.

### ***Selling and marketing expenses***

Our selling and marketing expenses decreased from RMB0.1 million for FY2018 to nil for FY2019 because we did not directly engage in any promotional activities in FY2019 other than engaging our publishing partners to distribute and promote our games through different distribution channels and the relevant amounts were recognised as cost of sales.

### ***Administrative expenses***

Our administrative expenses increased by RMB1.9 million or 46.3% from RMB4.1 million for FY2018 to RMB6.0 million for FY2019 primarily due to (i) the increase in staff costs by RMB1.1 million due to the increase in administrative headcount as well as the increase in the salary of some of our administrative staff; and (ii) the increase in amortisation of intangible assets by RMB0.7 million.

### ***Research and development expenses***

Our research and development expenses increased by RMB5.4 million or 125.6% from RMB4.3 million for FY2018 to RMB9.7 million for FY2019 mainly attributable to (i) the service fees of RMB3.3 million incurred in FY2019 for engaging subcontractors to provide artistic solutions and music production services; and (ii) the increase in staff costs by RMB1.4 million due to an increase in the number and salary of our research and development staff.

### ***Taxation***

We recorded income tax expenses of RMB5.1 million for FY2018 and income tax credit of RMB0.2 million for FY2019. The change was because we utilised the EIT exemption entitled to our subsidiaries namely Khorgos Dinglian and Khorgos Entertainment in FY2019, and recognition of deferred tax assets for unused tax losses in FY2019.

### ***Profit for the year***

Our profit for the year increased by RMB11.1 million or 28.2% from RMB39.4 million for FY2018 to RMB50.5 million for FY2019, and our net profit margin also slightly increased from 26.1% for FY2018 to 26.9% for FY2019 mainly due to the increase in our gross profit and tax credit recorded in FY2019, and partially offset by the increase in the research and development expenses and listing expenses incurred in the year.

## FINANCIAL INFORMATION

### **FY2018 compared to FY2017**

#### ***Revenue***

Our overall revenue increased by RMB43.9 million or 40.9% from RMB107.3 million for FY2017 to RMB151.2 million for FY2018. Such increase was primarily attributable to the following:

- Revenue from co-publishing of third party games increased by RMB8.4 million or 8.5% from RMB98.8 million for FY2017 to RMB107.2 million for FY2018, which primarily reflected the increase in our revenue from co-publishing SLG games by RMB42.4 million, notwithstanding the total number of games we co-published decreased from 108 games in FY2017 to 101 games in FY2018. Increase in our revenue from co-publishing of SLG games was primarily attributable to two war themed SLG games with relatively high gross billings that we co-published in FY2018 and contributed revenue in aggregate of RMB37.8 million in the same year.
- Revenue from publishing of self-developed games increased from nil for FY2017 to RMB32.9 million for FY2018 which was attributable to two self-developed games, namely Hollow Storm\* (虛空風暴) and Princess in Distress\* (公主遇險記) which we published in 2018.
- Revenue from development and sales of customised software and games increased by RMB2.6 million or 30.6% from RMB8.5 million for FY2017 to RMB11.1 million for FY2018. Such increase was mainly due to (i) the recognition of revenue of RMB2.7 million for online game optimisation service we provided to one of our major customers in 2018; and (ii) the increase in revenue by RMB1.2 million from an online RPG game that we developed and recognised revenue based on the predetermined milestones that we had completed across the years; and (iii) offset by the absence of revenue in aggregate of RMB1.8 million from seven games or software which we developed or customised and delivered to our customers in 2017.

#### ***Cost of sales***

Our cost of sales increased by RMB26.9 million or 40.0% from RMB67.3 million for FY2017 to RMB94.2 million for FY2018. Such increase in cost of sales was mainly due to (i) the increase in publishing related cost by RMB23.9 million or 37.6% which was in line with the revenue growth in our game publishing business by 41.9% in FY2018; and (ii) the increase in staff costs of RMB2.5 million due to the increase in staff number.

#### ***Gross profit and gross profit margin***

Our gross profit increased by RMB17.0 million or 42.5% from RMB40.0 million for FY2017 to RMB57.0 million for FY2018. The increase in our gross profit for FY2018 was mainly attributable to the gross profit derived from game publishing, as well as development and sales of customised software and games. Our gross profit margin was relatively stable at 37.3% and 37.7% for FY2017 and FY2018.

## FINANCIAL INFORMATION

### ***Other income***

Our other income increased by RMB0.8 million or 1,507.1% from RMB56,000 for FY2017 to RMB0.9 million for FY2018 mainly due to the increase in investment income from other financial assets by RMB0.4 million and government grants of RMB0.2 million recognised in respect of research expenses in FY2018.

### ***Selling and marketing expenses***

Our selling and marketing expenses decreased by RMB1.6 million or 94.1% from RMB1.7 million for FY2017 to RMB0.1 million for FY2018. We incurred relatively higher promotion expenses in FY2017 for placing advertisements and attending game exhibition for our brand and our self-operated platform which was launched in 2017. In the absence of promotion expenses incurred in connection with the launch of such platform, our selling and marketing expenses decreased in FY2018.

### ***Administrative expenses***

Our administrative expenses increased by RMB1.4 million or 51.9% from RMB2.7 million for FY2017 to RMB4.1 million for FY2018. Such increase was primarily due to (i) the increase in employee benefits expenses of RMB0.8 million as a result of the increase in the number of staff for FY2018; (ii) the increase in rental expense of RMB0.2 million which was related to the increase in office rent of Dinglian Technology and the additional office premises we leased for Khorgos Dinglian and Beihai Dinglian; (iii) the increase in professional fees of RMB0.2 million in relation to accounting and consultancy services we received during the year; and (iv) the increase in travelling and entertainment expenses of RMB0.2 million to cope with the growth in our business.

### ***Research and development expenses***

Our research and development expenses remained steady at RMB4.2 million and RMB4.3 million for FY2017 and FY2018, respectively.

### ***Taxation***

Our income tax expenses substantially increased from RMB20,000 for FY2017 to RMB5.1 million for FY2018. Our effective income tax rate increased from 0.1% to 11.4%. Such increases were attributable to (i) the increase in our profit before taxation; and (ii) Dinglian Technology being entitled to the EIT exemption in 2017 and 12.5% preferential tax rate for FY2018.

### ***Profit for the year***

As a result of the foregoing, our profit for the year increased by RMB7.9 million or 25.1% from RMB31.5 million for FY2017 to RMB39.4 million for FY2018.

Our net profit margin decreased slightly from 29.4% for FY2017 to 26.1% for FY2018 mainly due to the listing expenses incurred in FY2018.

## FINANCIAL INFORMATION

### LIQUIDITY AND FINANCIAL RESOURCES

#### Financial resources

Our use of cash primarily relates to our operating activities and capital expenditures. We have historically financed our operations primarily by capital injection and cash flow generated from our operations. We were able to repay our obligations when they became due. We did not have any bank borrowings or facilities during the Track Record Period. We currently expect that there will not be any material change in our sources of cash and use of cash, except that we will have additional funds from the proceeds of the Global Offering for implementing our future plans as detailed in “Future plans and use of proceeds” in this prospectus.

#### Cash flow

The following table summarises, for the years indicated, our consolidated statements of cash flows:

	<b>FY2017</b> <i>RMB'000</i>	<b>FY2018</b> <i>RMB'000</i>	<b>FY2019</b> <i>RMB'000</i>
Net cash generated from operating activities	21,971	10,978	28,942
Net cash generated from (used in) investing activities	3,713	(4,526)	(10,120)
Net cash used in financing activities	(78)	(1,422)	(2,246)
Net increase in cash and cash equivalents	25,606	5,030	16,576
Cash and cash equivalents at the beginning of the year	1,772	27,277	32,323
Effect of foreign exchange rate changes	(101)	16	70
Cash and cash equivalents at the end of the year, represented by bank balances and cash	<u>27,277</u>	<u>32,323</u>	<u>48,969</u>

#### *Cash flow generated from operating activities*

We derived our operating cash flows principally from our game publishing service fees, proceeds from sales of customised software and games and in-game sales of our self-developed games. Our working capital requirements were mainly for the payment of publishing related costs and staff costs. Net cash from operating activities comprised profit before taxation adjusted for non-cash items, such as impairment loss on trade receivables, provision for warranty, depreciation and amortisation, and the effect of changes in working capital. Net cash generated from operating activities decreased by RMB11.0 million from RMB22.0 million for FY2017 to RMB11.0 million for FY2018, which was mainly due to the down payments of RMB14.0 million made to game publishers and longer turnover of our trade receivables in FY2018. Net cash generated from operating activities increased by RMB17.9 million from RMB11.0 million for FY2018 to RMB28.9 million for FY2019, which was mainly due to the increase in the proceeds from game publishing business, which was partially offset by the increase in down payments to game publishers by RMB13.4 million in FY2019.

## FINANCIAL INFORMATION

For FY2019, we had net cash from operating activities of RMB28.9 million, which was a combined result of RMB51.5 million of operating cash flows before movements in working capital, income tax paid of RMB2.2 million and change in working capital of RMB20.3 million. The change in our working capital primarily reflected (i) the increase in trade and other receivables of RMB8.7 million; (ii) the decrease in trade and other payables of RMB2.8 million; and (iii) the decrease in contract liabilities of RMB8.9 million.

For FY2018, we had net cash from operating activities of RMB11.0 million, which was a combined result of RMB44.3 million of operating cash flows before movements in working capital, income tax paid of RMB0.8 million and change in working capital of RMB32.5 million. The change in our working capital primarily reflected (i) the increase in trade and other receivables of RMB39.5 million; and (ii) the increase in contract liabilities of RMB7.9 million.

For FY2017, we had net cash from operating activities of RMB22.0 million, which was a combined result of RMB31.7 million of operating cash flows before movements in working capital, income tax paid of RMB28,000 and change in working capital of RMB9.7 million. The change in our working capital primarily reflected (i) the increase in trade and other receivables of RMB27.4 million; (ii) the increase in trade and other payables of RMB16.1 million; and (iii) the increase in contract liabilities of RMB1.6 million.

### *Cash flow used in investing activities*

For FY2019, we had net cash used in investing activities of RMB10.1 million, mainly represented (i) the purchase of other financial assets of RMB19.5 million; (ii) the payment of RMB10.2 million for intangible assets purchased in FY2018 and FY2019; and (iii) the proceeds from redemption of other financial assets of RMB19.6 million.

For FY2018, we had net cash used in investing activities of RMB4.5 million, mainly represented (i) the purchase of other financial assets of RMB28.5 million; (ii) the partial payment of RMB4.8 million for intangible assets purchased in FY2018; and (iii) the proceeds from redemption of other financial assets of RMB28.9 million.

For FY2017, we had net cash from investing activities of RMB3.7 million, mainly represented (i) the purchase of property and equipment of RMB0.1 million; and (ii) the proceeds from redemption of other financial assets of RMB3.8 million.

### *Cash flow used in financing activities*

For FY2019, we had net cash used in financing activities of RMB2.2 million, mainly represented by the issue cost of RMB2.2 million paid in connection with the Listing.

For FY2018, we had net cash used in financing activities of RMB1.4 million, mainly represented by (i) the issue cost of RMB1.4 million paid in connection with the Listing; (ii) the advance from a director of RMB55,000; and (iii) the repayment to directors of RMB53,000.

For FY2017, we had net cash used in financing activities of RMB78,000, mainly represented by (i) the advance from a director of RMB0.6 million; and (ii) the repayment to directors of RMB0.7 million.



## FINANCIAL INFORMATION

### Net current assets

The following table sets forth our current assets and current liabilities as at the dates indicated:

	As at 31 December			As at
	2017	2018	2019	30 April
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> <i>(unaudited)</i>
<b>Current assets</b>				
Trade and other receivables	34,222	75,210	86,831	106,918
Amount due from a director	–	7	–	–
Amounts due from shareholders	–	69	–	–
Bank balances and cash	27,277	32,323	48,969	36,610
	<u>61,499</u>	<u>107,609</u>	<u>135,800</u>	<u>143,528</u>
<b>Current liabilities</b>				
Trade and other payables	19,923	21,232	17,516	4,652
Lease liabilities	–	–	37	150
Contract liabilities	1,613	9,515	636	257
Amount due to a director	8	10	–	–
Amounts due to shareholders	–	–	33	–
Taxation payable	850	5,061	2,851	4,123
Provision for warranty	199	–	–	–
	<u>22,593</u>	<u>35,818</u>	<u>21,073</u>	<u>9,182</u>
<b>Net current assets</b>	<u><u>38,906</u></u>	<u><u>71,791</u></u>	<u><u>114,727</u></u>	<u><u>134,346</u></u>

We recorded net current assets of RMB38.9 million, RMB71.8 million, RMB114.7 million and RMB134.3 million as at 31 December 2017, 2018 and 2019 and 30 April 2020, respectively.

Our net current assets increased by RMB32.9 million from RMB38.9 million as at 31 December 2017 to RMB71.8 million as at 31 December 2018. The increase was primarily attributable to the increase in trade receivables of RMB24.4 million and bank balances and cash of RMB5.0 million we generated from our operations during FY2018; and partially offset by (i) the increase in taxation payable of RMB4.2 million; and (ii) the increase in contract liabilities of RMB7.9 million mainly attributable to the in-game sales of our self-developed games which was launched in FY2018.

Our net current assets increased by RMB42.9 million from RMB71.8 million as at 31 December 2018 to RMB114.7 million as at 31 December 2019 mainly attributable to the increase in bank balances and cash of RMB16.6 million, the decrease in our trade and other payables of RMB3.7 million, the decrease in taxation payable of RMB2.2 million, and the increase in trade and other receivables of RMB11.6 million.

## FINANCIAL INFORMATION

Our net current assets increased by RMB19.6 million from RMB114.7 million as at 31 December 2019 to RMB134.3 million as at 30 April 2020 primarily attributable to the decrease in trade and other payables of RMB12.9 million, and the increase in trade and other receivables of RMB20.1 million, which were partially offset by the decrease in bank balance and cash of RMB12.4 million.

### WORKING CAPITAL SUFFICIENCY

Taking into consideration (i) the financial resources presently available to us, including the bank balances and cash, (ii) the expected cash generated from our operations, and (iii) the estimated net proceeds from the Global Offering, our Directors are of the opinion that we have sufficient working capital for our present working capital requirements for at least the next 12 months from the date of this prospectus.

Our Directors confirm that we do not have any bank borrowings, there were no material defaults in payment of our liabilities, and/or breaches of finance covenants during the Track Record Period.

### SELECTED ITEMS OF CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

#### Intangible assets

Our intangible assets represented the loyalty fees we paid to the fiction and animation copyright owners for the rights to develop, publish and operate mobile games based on the fiction and animation copyrights. As at 31 December 2017, 2018 and 2019, the carrying value of our intangible assets amounted to nil, RMB6.4 million and RMB13.8 million. These intangible assets are initially recorded at cost and amortised on a straight-line basis over the licence period of 10 years.

We consider the useful life of such licences to be 10 years based on (i) the licence period stated in the fiction and animation copyright agreements which is 10 years; and (ii) the estimated production cycle from development of characters in the fiction and animation, to research, design and coding in game production, application of relevant licences for publishing the games, version updates and the end of the game life cycle of the online games. Accordingly, it is expected that such licences can generate benefits to our Group over the licence period of 10 years.

## FINANCIAL INFORMATION

### Trade and other receivables

The following table sets forth the breakdown of our trade and other receivables as at the dates indicated.

	<b>As at 31 December</b>		
	<b>2017</b>	<b>2018</b>	<b>2019</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	32,253	56,735	49,163
Less: provision for impairment loss	(41)	(88)	(161)
	32,212	56,647	49,002
Down payments to game publishers	150	13,996	27,379
Advances to suppliers	1,345	840	5,586
Deposits and prepayments	173	177	158
Value-added tax recoverable	342	1,142	24
Prepaid listing expenses	–	804	71
Deferred issue costs	–	1,604	4,611
	34,222	75,210	86,831
Total trade and other receivables	34,222	75,210	86,831

### *Trade receivables*

Our trade receivables primarily consist of (i) our game publishing service fees and in-game sales proceeds yet to be paid to us by our publishing partners; and (ii) trade receivables due from our customers in relation to our sales of customised software and games.

Our trade receivables increased by RMB24.4 million from RMB32.2 million as at 31 December 2017 to RMB56.6 million as at 31 December 2018 primarily due to the continued growth in our game publishing business and the launching of our self-developed games in FY2018. Our trade receivables decreased by RMB7.6 million to RMB49.0 million as at 31 December 2019 primarily attributable to the major settlement of the trade receivables due from one of our customers before the year end.

## FINANCIAL INFORMATION

### *Aging analysis of trade receivables*

We allow an average credit period of 90 to 180 days to customers and payment platforms. The following is an aging analysis of trade receivables presented based on dates of delivery of goods or monthly statements issued as at the dates indicated:

	<b>As at 31 December</b>		
	<b>2017</b>	<b>2018</b>	<b>2019</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Not yet billed	2,139	–	–
0 – 90 days	22,297	42,941	39,780
91 – 180 days	7,347	13,706	9,222
Over 180 days	429	–	–
	32,212	56,647	49,002
Total	32,212	56,647	49,002

Our trade receivables not yet billed as at 31 December 2017 amounted to RMB2.1 million, which was attributable to development and sales of customised software and games to Customer D. As at 31 December 2017, we recognised revenue to the extent that our performance obligations in relation to the sales contract signed with Customer D, including sales of game source codes and provision of customisation services for the game, were satisfied. However, according to the payment terms in the sales contract, we should bill Customer D on an agreed date subsequent to 31 December 2017, resulted in a difference between the timing when the revenue recognised and the amount billed of RMB2.1 million.

We have a policy for allowance of impairment loss which is based on the evaluation of collectability and aging analysis of trade receivables and on management's judgement including the creditworthiness and the past collection history of each customer. In addition, we implemented measures to mitigate credit risk such as assessing our potential customer's credit quality and defining credit limits by customer before accepting any new customer. As illustrated, the trade receivables which were past due but not impaired amounted to RMB0.4 million, nil and RMB0.5 million, respectively, as at 31 December 2017, 2018 and 2019. Such amounts were still considered to be recoverable because the counterparties had good repayment history and sound financial position and such amounts had been fully settled as at the Latest Practicable Date. We did not hold any collateral over these balances.

We closely review the overdue balances on an ongoing basis and after thorough assessment we recorded net impairment loss on trade receivables amounted to RMB41,000, RMB97,000 and RMB73,000, respectively for FY2017, FY2018 and FY2019.

### *Trade receivables turnover days*

The following table sets out the average turnover days of our trade receivables:

	<b>FY2017</b>	<b>FY2018</b>	<b>FY2019</b>
Average trade receivables turnover days <sup>(1)</sup>	66	107	103

*Note:*

1. Average trade receivables turnover days equal the average of the opening and closing balance of trade receivables divided by revenue for the same year and multiplied by 365 days.

## FINANCIAL INFORMATION

Our average trade receivables turnover days were 66 days, 107 days and 103 days for FY2017, FY2018 and FY2019, respectively. Our Directors believe that the relatively lower average trade receivables turnover days for FY2017 were resulted from our collection effort made during FY2017. The increase in our average trade receivables turnover days in FY2018 was mainly because we had offered a credit term of 180 days to a new major customer in FY2018 for whom we had published 33 games in the year. Trade receivables from such major customer had subsequently been settled in full. Our average trade receivables turnover days for FY2018 and FY2019 were within the range of credit periods granted by us.

Our trade receivables as at 31 December 2019 amounted to RMB49.0 million, of which RMB27.0 million, or 55.2%, had been settled as at 30 April 2020.

### ***Other receivables***

Our other receivables increased by RMB16.6 million from RMB2.0 million as at 31 December 2017 to RMB18.6 million as at 31 December 2018 primarily due to (i) the increase in down payment paid to our publishing partners of RMB13.8 million mainly for securing the publishing rights of new games including a RPG game themed with a famous Kungfu novel and two war themed SLG games; (ii) the increase in value-added tax recoverable of RMB0.8 million in relation to the growth in revenue; and (iii) the increase in prepaid and deferred listing expenses of RMB2.4 million.

Our other receivables further increased by RMB19.2 million to RMB37.8 million as at 31 December 2019 primarily due to (i) the increase in down payments paid to our publishing partners by RMB13.4 million mainly for securing the publishing rights of six new RPG games, one new SLG game and one new casual game; (ii) the increase in advances to suppliers of RMB4.7 million mainly for the subcontracting services for artistic solutions for use in our game development and for the publishing services for our games; and (iii) the increase in deferred issue costs of RMB3.0 million.

### **Other financial assets**

We did not have any other financial assets as at 31 December 2017, 2018 and 2019. However we purchased financial products from sizeable banks in the PRC during the Track Record Period. We recorded an investment income of RMB34,000 in FY2017 upon redemption of a financial product from a bank with a principal amount of RMB3.8 million. In FY2018, we purchased four financial products from the banks at consideration of RMB28.5 million in total and recorded an aggregated investment income of RMB444,000 upon redemption in the same year. In FY2019, we purchase four financial products from two banks at consideration of RMB19.5 million and recorded an investment income of RMB88,000 in the same year. The following table sets out the details of other financial assets that we invested in during the Track Record Period and up to the Latest Practicable Date:

No.	Type	Date of purchase	Date of redemption	Principal amount
1	Financial product of a bank that invested in a portfolio of equities, debts, bonds and other assets	December 2016	September 2017	RMB3.8 million
2	National debt reverse repurchase	January 2018	December 2018	RMB16.8 million
3	National debt reverse repurchase	February 2018	December 2018	RMB3.2 million
4	Financial product of a bank that invested in a portfolio of equities, debts, bonds and other assets	February 2018	March 2018	RMB6.5 million
5	Financial product of a bank that linked to the price of gold	February 2018	March 2018	RMB2.0 million
6	Financial product of a bank that invested in a portfolio of equities, debts, bonds and other assets	February 2019	March 2019	RMB3.0 million

## FINANCIAL INFORMATION

No.	Type	Date of purchase	Date of redemption	Principal amount
7	Financial product of a bank that invested in a portfolio of equities, debts, bonds and other assets	October 2019	December 2019	RMB6.5 million
8	Financial product of a bank that invested in a portfolio of equities, debts, bonds and other assets	October 2019	December 2019	RMB5.0 million
9	Financial product of a bank that invested in a portfolio of equities, debts, bonds and other assets	November 2019	December 2019	RMB5.0 million
10	Financial product of a bank that invested in a portfolio of equities, debts, bonds and other assets	January 2020	March 2020	RMB10.0 million
11	Financial product of a bank that invested in a portfolio of equities, debts, bonds and other assets	January 2020	March 2020	RMB5.0 million
12	Financial product of a bank that invested in a portfolio of equities, debts, bonds and other assets	January 2020	March 2020	RMB5.0 million
13	Financial product of a bank that invested in a portfolio of equities, debts, bonds and other assets	March 2020	March 2020	RMB2.5 million

As at the Latest Practicable Date, we did not hold any other financial assets and we do not intend to continue investing in any other financial instruments after the Listing.

### Trade and other payables

The following table sets forth the breakdown of our trade and other payables as at the dates indicated.

	<b>As at 31 December</b>		
	<b>2017</b> <i>RMB'000</i>	<b>2018</b> <i>RMB'000</i>	<b>2019</b> <i>RMB'000</i>
Trade payables	16,555	13,194	11,865
Other tax payables	2,207	4,794	682
Payroll and welfare payables	816	685	1,036
Accrued listing expenses and accrued issue costs	–	719	3,933
Payable for purchase of intangibles assets	–	1,840	–
Others	345	–	–
	19,923	21,232	17,516
Total trade and other payables	19,923	21,232	17,516

## FINANCIAL INFORMATION

### *Trade payables*

Our trade payables primarily represent the balances due to our suppliers and in-game sales proceeds we received on behalf of our customers.

Our trade payables decreased by RMB3.4 million from RMB16.6 million as at 31 December 2017 to RMB13.2 million as at 31 December 2018 primarily due to the partial settlement of certain long overdue balance payable to one of our major suppliers. Our trade payables decreased by RMB1.3 million from RMB13.2 million as at 31 December 2018 to RMB11.9 million as at 31 December 2019 primarily because we increased the use of payment in advance to our service providers or down payment to our publishing partners in FY2019 for more favourable terms, such as higher revenue sharing ratio on the gross billings.

### *Aging analysis of trade payables*

The following is an aging analysis of trade payables presented based on the dates of receipt of services monthly statements issued as at the dates indicated:

	<b>As at 31 December</b>		
	<b>2017</b>	<b>2018</b>	<b>2019</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
0 – 30 days	2,727	3,102	3,352
31 – 60 days	2,073	5,339	5,370
61 – 90 days	2,667	3,178	3,143
91 – 180 days	6,853	–	–
Over 180 days	2,235	1,575	–
	16,555	13,194	11,865
<b>Total</b>	<b>16,555</b>	<b>13,194</b>	<b>11,865</b>

The credit periods granted to us by our creditors generally ranged from 30 to 90 days. We recorded trade payables which were overdue for more than 90 days of RMB9.1 million as at 31 December 2017, which was mainly attributable to the trade payables due to two of our major suppliers. Most of these long overdue balances had been settled subsequently and therefore the trade payables which were overdue for more than 90 days had decreased to RMB1.6 million as at 31 December 2018. As at 31 December 2019, the trade payables which were overdue for more than 90 days had decreased to nil.

### *Trade payables turnover days*

The following table sets out the average turnover days of our trade payables:

	<b>FY2017</b>	<b>FY2018</b>	<b>FY2019</b>
Average trade payables turnover days <sup>(1)</sup>	54	58	41

*Note:*

1. Average trade payables turnover days equal the average of the opening and closing balance of trade payables divided by cost of sales for the same year and multiplied by 365 days.

## FINANCIAL INFORMATION

Our average trade payables turnover days were 54 days, 58 days and 41 days for FY2017, FY2018 and FY2019, respectively. Our average trade payables turnover days remained stable for FY2017 and FY2018. In FY2019, we increased the use of payment in advance to our service providers or down payment to our publishing partners as discussed above, and as a result our trade payable balance and average trade payables turnover days decreased.

Our trade payables as at 31 December 2019 amounted to RMB11.9 million had been fully settled as at 30 April 2020.

### *Other payables*

Our payroll and welfare payables remained relatively stable at RMB0.8 million as at 31 December 2017, RMB0.7 million as at 31 December 2018 and RMB1.0 million as at 31 December 2019.

Our other tax payables increased by RMB2.6 million from RMB2.2 million as at 31 December 2017 to RMB4.8 million as at 31 December 2018 due to the increase in value-added tax payables. Our other tax payables decreased by RMB4.1 million to RMB0.7 million as at 31 December 2019 primarily because our output value-added tax approximated to our input value-added tax in the year and resulted in a lower net value-added tax payable balance.

### **Contract liabilities**

Our contract liabilities primarily consist of the advance from a customer for development and sales of customised software and games and the unamortised revenue from sales of game tokens and other virtual items for mobile games as our Group has an implied obligation to provide services over the player relationship period. Our contract liabilities increased by RMB7.9 million from RMB1.6 million as at 31 December 2017 to RMB9.5 million as at 31 December 2018 mainly attributable to the consideration received from game players from the publication of our self-developed games and offset by the decrease in previously recognised unamortised revenue of a third party RPG game over its player relationship period. Our contract liabilities decreased by RMB8.9 million from RMB9.5 million as at 31 December 2018 to RMB0.6 million as at 31 December 2019 mainly due to the decrease in previously recognised unamortised revenue by RMB8.0 million and the return of the advance from a customer of RMB0.9 million as a result of the cancellation of the engagement of game development during FY2019. The consideration received from game players from the publication of our self-developed games amounted to RMB0.6 million as at 31 December 2019 and had been fully recognised as revenue as at the Latest Practicable Date.

### **Amounts due from/to a director and shareholders**

The amounts due from/to a director and shareholders mainly represented advances received from or paid to a director and shareholders during the Track Record Period. The amounts due from a director and shareholders aggregately amounted to nil, RMB0.1 million and nil as at 31 December 2017, 2018 and 2019, respectively. The amount due to a director and shareholders aggregately amounted to RMB8,000, RMB10,000 and RMB33,000 as at 31 December 2017, 2018 and 2019, respectively. All amounts due from/to a director and shareholders are non-trade in nature and are unsecured, interest-free and repayable on demand. All amounts due from/to a director and shareholders had been fully settled as at the Latest Practicable Date.



## **FINANCIAL INFORMATION**

### **INDEBTEDNESS**

As at 30 April 2020, our Group had lease liabilities of RMB150,000 which were secured by rental deposits and unguaranteed.

Save as disclosed in the above paragraph, our Group did not have any banking facilities or any outstanding or authorised but unissued debt securities, term loans, other borrowings or indebtedness in the nature of borrowing, acceptance credits, other recognised lease liabilities, lease commitments, mortgages, charges, guarantees or material contingent liabilities.

Our Directors confirm that there has not been any material change in our indebtedness and contingent liabilities since 30 April 2020 up to the date of this prospectus.

### **TRANSACTIONS WITH RELATED PARTIES**

For information on related party transaction, please see Note 31 to our consolidated financial statements included in the Accountants' Report in Appendix I to this prospectus. All of the compensation of key management personnel of our Group were for our ordinary course of business.

### **CONTINGENT LIABILITIES**

As at the Latest Practicable Date, we did not have any material contingent liabilities.

### **CAPITAL EXPENDITURE**

Our Group's capital expenditures have principally consisted of expenditures on acquisitions of property and equipment and intangible assets in our operations. For FY2017, FY2018 and FY2019, our Group incurred capital expenditures of RMB142,000, RMB6.9 million and RMB8.4 million, respectively, for the acquisition of office equipment, leasehold improvements and fiction and animation copyright licences. Subsequent to the Track Record Period and up to the Latest Practicable Date, we had not made any material capital expenditures.

Our planned capital expenditures for acquisition of copyright licences, office equipment and leasehold improvements are estimated to be RMB18.0 million, RMB0.4 million and RMB0.4 million, respectively for the three years ending 31 December 2022. Our Group's planned capital expenditures are subject to revision based upon any future changes in our business plan, market conditions, and economic and regulatory environment. See "Future plans and use of proceeds" in this prospectus for further information.

### **PROPERTY INTERESTS**

Our Directors confirm that, as at 31 December 2019, our Group had no property interest that would give rise to a disclosure requirement under Rules 5.01 to 5.10 of the Listing Rules.

<b>FINANCIAL INFORMATION</b>
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## CONTRACTUAL AND CAPITAL COMMITMENTS

### Operating leases

As at 31 December 2017 and 2018, our Group had commitments for future minimum lease payments in respect of office premises under non-cancellable operating leases which fall due as follows:

	<b>As at 31 December</b>	
	<b>2017</b>	<b>2018</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	185	365
In the second to fifth year inclusive	192	303
	377	668
	377	668

At 31 December 2019, our Group had commitments for future minimum lease payments in respect of office premises under non-cancellable short-term leases and lease of low-value assets which fall due as follows:

	<b>As at 31 December 2019</b>
	<i>RMB'000</i>
Within one year	165
In the second to fifth year inclusive	3
	168
	168

### Capital commitments

During the Track Record Period, we had no capital commitment that was not provided for in our consolidated financial statements.

We expect to fund our contractual commitments and capital expenditures principally through the net proceeds from the Global Offering and the cash generated from our operations. We believe that these sources of funding will be sufficient to finance our contractual commitments and capital expenditure needs for the next 12 months.

## FINANCIAL INFORMATION

### KEY FINANCIAL RATIOS

The following table sets forth the key financial ratios of our Group during the Track Record Period:

	<i>Notes</i>	<b>As at/for FY2017</b>	<b>As at/for FY2018</b>	<b>As at/for FY2019</b>
Current ratio	<i>1</i>	2.7	3.0	6.4
Quick ratio	<i>2</i>	2.7	3.0	6.4
Gearing ratio	<i>3</i>	0.0%	0.0%	0.0%
Net debt to equity ratio	<i>4</i>	N/A	N/A	N/A
Return on equity	<i>5</i>	135.0%	67.0%	48.7%
Return on assets	<i>6</i>	85.0%	44.8%	38.2%
Gross profit margin	<i>7</i>	37.3%	37.7%	40.4%
Net profit margin	<i>8</i>	29.4%	26.1%	26.9%

*Notes:*

1. Current ratio is calculated by dividing total current assets by total current liabilities as at the end of the year.
2. Quick ratio is calculated by dividing current assets (net of inventories) by total current liabilities as at the end of the year.
3. Gearing ratio is calculated by dividing total debts by total equity as at the end of the year. Our total debts represent amounts due to a director and shareholders.
4. Net debt to equity ratio is calculated by dividing net debt by total equity as at the end of the year. Net debt is defined as total debts net of cash and cash equivalents.
5. Return on equity is calculated by dividing profit for the year by average balance of total equity and multiplied by 100%. Average balance represents the sum of the opening balance and closing balance of a period and divided by two.
6. Return on assets is calculated by dividing profit for the year by average balance of total assets and multiplied by 100%. Average balance represents the sum of the opening balance and closing balance of a period and divided by two.
7. Gross profit margin is calculated by dividing gross profit by revenue and multiplied by 100%. Gross profit equals revenue minus cost of sales.
8. Net profit margin is calculated by dividing profit for the year by revenue and multiplied by 100%.

### Current ratio and quick ratio

Our current ratio was 2.7, 3.0 and 6.4 as at 31 December 2017, 2018 and 2019, respectively. Our current ratio increased from 2.7 as at 31 December 2017 to 3.0 as at 31 December 2018, which was attributable to (i) the increase in bank balances and cash that we retained from our business operations in FY2018; and (ii) the increase in trade receivables and down payments to game publishers in FY2018. Our current ratio further increased to 6.4 as at 31 December 2019, which was attributable to the increase in down payments to game publishers as well as the decrease in trade payables and the decrease in contract liabilities in FY2019.

Our quick ratio was 2.7, 3.0 and 6.4 as at 31 December 2017, 2018 and 2019, respectively. Since we did not have any inventories as at 31 December 2017, 2018 and 2019, our quick ratio was the same as our current ratio.

## FINANCIAL INFORMATION

### **Gearing ratio and net debt to equity ratio**

Our gearing ratio was insignificant as at 31 December 2017, 2018 and 2019. Our gearing ratio was low because we did not have material debts as at 31 December 2017, 2018 and 2019.

Our net debt to equity ratio was not meaningful because we did not record a net debt position as at 31 December 2017, 2018 and 2019.

### **Return on equity**

Our return on equity was 135.0%, 67.0% and 48.7% for FY2017, FY2018 and FY2019, respectively. Our return on equity for FY2017 was relatively higher because of the significant increase in our revenue and net profit as a result of the rapid growth of our game publishing business during the year. Our return on equity for FY2019 further decreased to 48.7% mainly due to the increase in down payments to game publishers and acquisition of intangible assets in FY2019, where the relevant return from such assets is expected to be realised in future periods.

### **Return on assets**

Our return on assets was 85.0%, 44.8% and 38.2% for FY2017, FY2018 and FY2019, respectively. Our return on assets for FY2017 was relatively higher because of the significant increase in our revenue and net profit as a result of the increasing trade and other receivables and bank balances and cash during the year. Our return on assets for FY2019 further decreased to 38.2% mainly due to the increase in total assets in FY2019 as a result of the increase in down payments to game publishers and acquisition of intangible assets, where the relevant return from such assets is expected to be realised in future periods.

### **Gross profit margin**

Our gross profit margin was 37.3%, 37.7% and 40.4% for FY2017, FY2018 and FY2019, respectively. For a discussion of the factors affecting our gross profit margin, see “Period to period comparison of results of operations — Gross profit and gross profit margin” in this section.

### **Net profit margin**

Our net profit margin was 29.4%, 26.1% and 26.9% for FY2017, FY2018 and FY2019, respectively. For a discussion of the factors affecting our net profit margin, see “Period to period comparison of results of operations — Profit for the year” in this section.

## **QUALITATIVE AND QUANTITATIVE ANALYSIS ABOUT MARKET RISK**

Our Group is exposed to market risk, credit risk and liquidity risk in the normal course of business. For further details of our financial risk management, see Note 29 to the Accountants’ Report set out in Appendix I to this prospectus.

## **OFF-BALANCE SHEET ARRANGEMENTS**

As at the Latest Practicable Date, we had not entered into any off-balance sheet arrangements.

## FINANCIAL INFORMATION

### **DIVIDEND AND DIVIDEND POLICY**

We did not declare nor pay any dividend during the Track Record Period and up to the Latest Practicable Date. After the completion of the Global Offering, Shareholders will be entitled to receive dividends declared by our Company. The declaration of, payment and amount of dividends will be subject to the discretion of our Board. We do not have a fixed dividend policy or a pre-determined dividend payout ratio. Our Board may recommend a payment of dividend in the future after taking into account our financial results, shareholders' interest, general business conditions, strategies and future expansion needs, our capital requirements and availability, possible effects on liquidity and financial position of our Company and such other factors as our Board may consider relevant.

### **LISTING EXPENSES**

Our estimated listing expenses primarily consist of legal and professional fees, including underwriting commission, in relation to the Listing. Assuming the Offer Price of HK\$1.75 per Offer Share, being the mid-point of the indicative range of the Offer Price stated in this prospectus, the total listing expenses are estimated to be HK\$43.7 million (equivalent to RMB40.0 million), which will be borne by the Selling Shareholders and our Group on 24:76 proportion, amounting to HK\$10.5 million (equivalent to RMB9.6 million) and HK\$33.2 million (equivalent to RMB30.4 million), respectively. As such, the listing expenses attributable to our Group represents 24.9% of the gross proceeds to be received by our Group. Of such amount to be borne by the Selling Shareholders in connection with the sale of Sale Shares, HK\$3.8 million (equivalent to RMB3.5 million) will be reimbursed by the Selling Shareholders to our Group and HK\$6.7 million (equivalent to RMB6.1 million) will be contributed by the Selling Shareholders in their capacity as Shareholders and be accounted for as capital contribution to our Group. Of the aggregate listing expenses of HK\$43.7 million (equivalent to RMB40.0 million), there were HK\$5.3 million (equivalent to RMB4.8 million) and HK\$12.2 million (equivalent to RMB11.1 million) being charged to the consolidated statements of profit or loss and other comprehensive income for FY2018 and FY2019. For the remaining amount of HK\$26.2 million (equivalent to RMB24.1 million), HK\$3.8 million (equivalent to RMB3.5 million) will be borne by the Selling Shareholders as stated above, and our Group expects to further charge HK\$10.4 million (equivalent to RMB9.5 million) to profit or loss, while HK\$12.0 million (equivalent to RMB11.1 million) is expected to be directly attributable to the issue of new Shares and be accounted for a deduction from equity in accordance with the relevant accounting standards. The estimated listing expenses are subject to adjustments based on the actual amount incurred or to be incurred.

### **UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS**

See "Unaudited pro forma financial information" in Appendix II to this prospectus for details.

### **DISCLOSURE REQUIRED UNDER CHAPTER 13 OF THE LISTING RULES**

Our Directors confirm that, as at the Latest Practicable Date, there were no circumstances that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

## FINANCIAL INFORMATION

### **NO MATERIAL ADVERSE CHANGE**

Our Directors have confirmed that, up to the date of this prospectus, save as disclosed in “Summary — Recent development”, there has been no material adverse change in our financial or trading position since 31 December 2019, the end of the period reported in the Accountants’ Report set out in Appendix I to this prospectus, and there has been no event since 31 December 2019 which would materially affect the information shown in the Accountants’ Report set out in Appendix I to this prospectus.

### **DISTRIBUTABLE RESERVES**

As at 31 December 2019, our Company had no distributable reserve available for distribution to our Shareholders.

## FUTURE PLANS AND USE OF PROCEEDS

### FUTURE PLANS

Our business objective is to continue to strengthen our position and enhance our presence in the mobile game industry in China and leverage on our competitive advantages to expand our presence in other regions in Asia. To achieve our objective, we plan to (i) enhance our game development capabilities and expand our game portfolio; (ii) strengthen our game publishing capabilities; (iii) establish an integrated game distribution platform; and (iv) expand our geographic coverage and build international user base. See “Business — Business strategies” in this prospectus for detailed description of our future plans.

In order to achieve the aforementioned strategies, we set forth below our implementation plan on the use of the net proceeds of the Global Offering. Investors should note that the implementation plan is based on the current macroeconomic conditions and certain assumptions. These bases and assumptions are inherently subject to uncertainties and unpredictable factors, including the risk factors set forth in “Risk factors” in this prospectus. Our actual course of business may vary from our business strategies set out in this prospectus. There is no assurance that our plans will materialise within our expected time frame, that our strategies will be successful or that our objective will be accomplished. While the actual course of events may be subject to unforeseeable changes and fluctuations, we shall use our best endeavours to anticipate and react proactively to new situations and maintain flexibility when implementing the following plans.

### USE OF PROCEEDS

We estimate that the net proceeds of the Global Offering to be received by our Group, after deducting the related underwriting fees and estimated expenses payable by us in connection with the Global Offering, will be approximately HK\$99.8 million assuming the Over-allotment Option is not exercised and the Offer Price is fixed at HK\$1.75 per Offer Share (being the mid-point of the proposed Offer Price range of HK\$1.63 to HK\$1.87 per Offer Share). We currently intend to apply such net proceeds in the following manner:

- approximately HK\$33.0 million or approximately 33.1% of the net proceeds, will be used to enhance our game development capabilities and to expand our game portfolio, of which:
  - approximately HK\$12.5 million, or approximately 12.5% of the net proceeds, will be used for acquiring game developer in the PRC with mature game development capability and proven track record in developing sizable mobile games. We identify our potential acquisition target based on their scale in terms of headcount as well as turnover, technology, and experience in game development and we expect to integrate the acquired company into our Group to expand our game portfolio and strengthen our game development capabilities. We currently plan to acquire game developer(s) in 2021 with 30 to 40 development staff, with one to two self-developed games in its pipeline, track record of successful game development (i.e. successfully developed and launched at least six games, of which, either there were two games with gross billings over RMB10.0 million or there were three games with gross billings over RMB6.0 million) and has established for over three years, that overall has potential but lack of sufficient resources to launch games or expand. As at the Latest Practicable Date, we had not identified or committed to any specific acquisition target;

## FUTURE PLANS AND USE OF PROCEEDS

- approximately HK\$11.2 million, or approximately 11.3% of the net proceeds, will be used for acquiring viable IP licences from third parties. The key selection criteria for acquiring IP licences include (i) the popularity of the IPs; (ii) the adaptability of the IPs into our self-developed games; (iii) the anticipated commercial value generated from the IPs; and (iv) the cost of the IP licensing arrangement. We will prepare an internal assessment report and make reference to third party valuation report to evaluate the feasibility of the IPs and the potential profit generated from the sale of games developed based on the IPs to third party game developers and publishers. The internal assessment report contains evaluation on the viability of each potential IP via assessing (i) the IP's ability to attract game players and their in-game spending; and (ii) the value of the IP and the potential profit generated from the IP. We will undergo evaluation and negotiation with the IP licensors in the PRC and we anticipate to obtain IP licences in respect of 8 to 18 copyrights of literature, cartoons or popular stickers used in social networks which we consider attractive to users and can add value to our self-developed games by incorporating such IP elements. As at the Latest Practicable Date, we had not identified any potential IPs, nor had started negotiations with any third parties for obtaining IP licences; and
- approximately HK\$9.3 million, or approximately 9.3% of the net proceeds, will be used for expanding our in-house development capacity, of which (i) approximately HK\$2.5 million, or approximately 2.5% of the net proceeds, will be used for recruiting talents; (ii) approximately HK\$0.7 million, or approximately 0.7% of the net proceeds, will be used for setting up new offices and acquisition of equipment and facilities to accommodate the expanded in-house development team; and (iii) approximately HK\$6.1 million, or approximately 6.1% of the net proceeds, will be used for engaging third party subcontractors for the provision of artistic solutions and music production services in our course of game development. In connection with our recruitment of talents, we plan to expand our development team by recruiting additional 13 employees who will be responsible for a variety of disciplines like user interface, artistic design, level planning and server engineering. As at the Latest Practicable Date, our research and development team consisted of 62 employees and they were fully occupied to develop games in our development pipeline and provide support and updates to our self-developed games that were in operation. As we are planning to complete development and publish 10 games in the two years ending 31 December 2022, after taking into account of the additional employees from the game developers in the PRC that we plan to acquire in 2021, we plan to hire 13 additional employees with experience in RPG and casual games development by 2020 in order to meet our business plan of game development and provide continual support to our expanding portfolio of self-developed games to be launched.
- approximately HK\$46.0 million, or approximately 46.1% of the net proceeds, will be used to strengthen our publishing capabilities, of which:
  - approximately HK\$12.5 million, or approximately 12.5% of the net proceeds, will be used for acquiring game publishers in the PRC with strong game sourcing and publishing ability. We identify our potential acquisition targets based on their profitability as well as game portfolio on hand, historical track record of game publishing experience and diversified user base. The key selection criteria for identifying the potential acquisition target include (i) the number of games it has published and whether it possesses exclusive rights to publish and distribute games in any specific channels; (ii) its ability to publish games independently; (iii) the number



## FUTURE PLANS AND USE OF PROCEEDS

and the competence of its management and staff; (iv) profit of not less than RMB3.0 million in the latest financial year; and (v) its anticipated prospects and profitability in the future. We currently plan to acquire game publisher(s) in 2021 with a track record of over 30 published games and experience in publishing games in various channels. As at the Latest Practicable Date, we had not identified or committed to any specific acquisition target;

- approximately HK\$26.1 million, or approximately 26.2% of the net proceeds, will be used in co-publishing of third party games and self-developed games during the three years ending 31 December 2022. We plan to deploy (i) approximately HK\$8.7 million, or approximately 8.7% of the net proceeds, as down payment to up-stream game publishers or developers for securing publishing rights of five third party games; (ii) approximately HK\$6.2 million, or approximately 6.3% of the net proceeds, as publishing-related costs for seven third party games; and (iii) approximately HK\$11.2 million, or approximately 11.2% of the net proceeds, as publishing related costs to publish 10 of our self-developed games;

We plan to commence negotiation with game publishers or developers when the funding is available and we plan to co-publish two RPG third party games in the second half of 2020; one RPG third party game in the first half of 2021; and one RPG third party game in the second half of 2021; one RPG third party game in the first half of 2022; and one RPG third party game and one SLG third party game in the second half of 2022.

In view of the overall increase in processing time for obtaining pre-approval for publishing our self-developed games after the resumption of the approval process of game registration and issuance of publication numbers by the NPPA in December 2018 and that we rolled out an additional self-developed game, namely Stratagem in the Three Kingdoms\* (醉計三國) in February 2020, we do not currently plan to launch other new self-developed game in 2020. Instead, we plan to utilise the proceeds to publish five self-developed games during each of the years ending 31 December 2021 and 2022, respectively. Subject to the completion of relevant regulatory applications and filings, we plan to utilise the proceeds for publishing self-developed games including: Apprentice of the Spirit\* (英靈學徒) and Fearless Sword\* (刀劍忘機) to be launched in the first half of 2021; two self-developed RPG games and one self-developed SLG game to be launched in the second half of 2021; one self-developed RPG game and one self-developed SLG game to be launched in the first half of 2022 and three self-developed RPG games to be launched in the second half of 2022. As at the Latest Practicable Date, Apprentice of the Spirit\* (英靈學徒) and Fearless Sword\* (刀劍忘機) were pending for pre-approval from the NPPA and we expect to apply for registrations with NPPA and obtain pre-approvals for the remaining self-developed games before their expected official launch dates. In case there is any delay in obtaining approvals from the regulatory bodies or fulfilling any regulatory requirements, we may postpone the release dates of our self-developed games;

- approximately HK\$3.6 million, or approximately 3.6% of the net proceeds, will be used for leasing extra cloud server spaces to cope with the technical requirements for publishing the self-developed games and licensed third party games; and
- approximately HK\$3.8 million, or approximately 3.8% of the net proceeds, will be used for promoting our brand and games in the PRC by, for example, organising sales and marketing events and placing advertisements through online and offline channels.

## FUTURE PLANS AND USE OF PROCEEDS

- approximately HK\$13.7 million, or approximately 13.7% of the net proceeds, will be used to establish an integrated game distribution platform which will allow mobile game developers to develop and upload mobile games, game users to download, share and purchase games, as well as top up and make in-game purchases, of which:
  - approximately HK\$3.4 million, or approximately 3.4% of the net proceeds, will be used for recruiting employees and we plan to recruit additional 42 employees, including IT technicians, customer services, business development and designers with an average salaries of approximately RMB4,000 to RMB15,000, to develop the integrated game distribution platform and support its daily operation;
  - approximately HK\$9.4 million, or approximately 9.4% of the net proceeds, will be used for promoting our integrated game distribution platform and games in the PRC by, for example, carrying out in-game marketing and placing advertisements through online and offline channels; and
  - approximately HK\$0.9 million, or approximately 0.9% of the net proceeds, will be used for leasing extra cloud server spaces and acquisition of equipment to cope with the technical requirement for the operation of our game distribution platform.

We plan to commence design and set up the integrated game distribution platform in the second half of 2020; test and pre-run the integrated game distribution platform in the first half of 2021; and officially launch the integrated game distribution platform and carry out marketing campaigns in the PRC in the second half of 2021.

Our Directors consider that establishing an integrated game distribution platform can strengthen our capability in game distribution and can save publishing related costs in the long run and benefit our Group in terms of potential revenue growth and profitability given (i) our publishing related costs in FY2019 was RMB107.0 million and represented 57.0% of our revenue, we expect our reliance on existing third party distribution channels can be reduced with the presence of our integrated game distribution platform; and (ii) the enhanced function of the integrated game distribution platform allows us to form a player community or user base and bring in stable user traffic so that we can attract and promote multiple games at the same time on our integrated game distribution platform more cost-effectively. See “Business — Business strategies — Establish an integrated game distribution platform” for further details.

Based on the expected cost for establishing the integrated game platform, our anticipated marketing expenses to be devoted in attracting users to our integrated game distribution platform, the market average of the acquisition cost of paying users and average in-game spending, our Directors estimate that the payback period of our investment in the integrated game distribution platform to be 31 months.

## FUTURE PLANS AND USE OF PROCEEDS

- approximately HK\$7.1 million, or approximately 7.1% of the net proceeds, will be used to expand our geographic coverage and build international user base starting from the first half of 2021, of which:
  - approximately HK\$3.6 million, or approximately 3.6% of the net proceeds, will be used for recruiting employees to (i) modify our self-developed games and third party games sourced from the PRC to cater the interests of players in other Asian markets; (ii) facilitate game publishing locally; and (iii) execute marketing plans and we plan to recruit additional 25 employees responsible for marketing, technical support, business operations and commerce with a view to expanding into markets outside China;
  - approximately HK\$0.7 million, or approximately 0.7% of the net proceeds, will be used for setting up new offices and acquisition of office equipment to facilitate such expansion; and
  - approximately HK\$2.8 million, or 2.8% of the net proceeds, will be used for adopting online and offline marketing strategies to promote our brand and games in other Asian markets.

We will not receive any of the proceeds from the sale of the Sale Shares by the Selling Shareholders in the Global Offering. The Selling Shareholders estimate that they will receive, in aggregate, net proceeds from the Global Offering of approximately HK\$31.5 million, after deducting the estimated underwriting commissions and expenses payable by them in the Global Offering and assuming an Offer Price of HK\$1.75 per Offer Share, being the mid-point of the indicative Offer Price range.

If the Offer Price is set at the highest or lowest point of the proposed Offer Price range, the net proceeds to be received by our Group, assuming that the Over-allotment Option is not exercised, will increase to approximately HK\$108.5 million or decrease to approximately HK\$91.1 million, respectively; and in such event, we intend to increase or decrease, respectively, the net proceeds to be used for the above purposes on a pro-rata basis. If the Over-allotment Option is exercised in full, the net proceeds will increase to approximately HK\$134.3 million, assuming an Offer Price of HK\$1.87 per Offer Share, being the high-end of the proposed Offer Price range.

To the extent that the net proceeds are not immediately applied for the above purposes and to the extent permitted by applicable laws and regulations, we intend to deposit the net proceeds into short-term deposits with banks.

We will issue an announcement in the event that there is any material change in the use of proceeds of the Global Offering as described above.

## FUTURE PLANS AND USE OF PROCEEDS

### REASONS FOR THE LISTING

Our Directors believe that the Listing can strengthen our Group's financial position and enable our Group to implement its business strategies, details of which are set out in "Business – Business strategies" in this prospectus. In addition, our Directors expect that the Listing will bring the following benefits to our Group and its shareholders:

- Our Directors consider achieving a listing status to be a crucial way to compete with our Group's major competitors in the mobile game industry, leading us to attract larger user base, establishment and strengthening of business relationships with new or existing game developers and publishers, expansion of market share and attraction of strategic investors to our Group. Our Directors also believe that a public listing status, transparent financial disclosures and regulatory supervision are definite competitive advantage for us to develop and expand our business into overseas market and to establish ourselves as a reliable brand in the mobile game industry. We would also receive significant publicity and media attention through our Listing in our local and overseas markets.
- Our Group's business is expected to be expanding in the near future which necessitates fund raising through the Global Offering. Our Directors envisage that there are considerable business opportunities and growth drivers which justify our Group's expansion plan to compete in the mobile game business. See "Industry overview — Mobile game industry in the PRC — Market drivers of the mobile game industry in the PRC" in this prospectus for further details. The Listing would provide a fund-raising platform for our Company, thereby enabling us to raise the capital required to finance our future growth and expansion without reliance on our Controlling Shareholders to do so. Such platform would allow our Company to gain direct access to the capital market for equity and/or debt financing to fund its existing operations and future expansion, which could be instrumental to our expansion and improving our operating and financial performance for maximum Shareholder return. As the scale of our business increases, it also becomes crucial for us to secure additional financing channels to continue to sustain our long-term development. Our Directors believe we should be able to secure more favourable terms from our banks based on our profile as a publicly listed company. Therefore, the Listing would allow us to alleviate our reliance on our Controlling Shareholders and increase our flexibility in financing our operations.
- As we plan to expand our business operations, we need to hire additional personnel and maintain valuable staff to execute and implement our expansion plan. Becoming a listed company would help enhance the company profile, boost employee loyalty and morale and attract talented people. It would also enhance our ability to recruit, motivate and retain key management personnel. The Listing would enable us to offer an equity-based incentive programme with marketable securities (such as a share option scheme) to our management members and employees to better incentivise employee performance. Therefore, we would be better positioned to align the incentives of our employees with that of our Shareholders. We believe that with the ability to offer equity-based incentive plans, we could attract more talented employees and retain their services for the long term.

Our Directors have considered the potential benefits of a long-term listing status which our Group expects to achieve through the listing exercise when considering the amount of the listing expenses to be incurred. Our Directors believe the above potential benefits of a long-term listing status would outweigh the costs in relation to the Listing and could justify the risks and uncertainties involved in the listing application.

## UNDERWRITING

### HONG KONG UNDERWRITERS

Huajin Securities (International) Limited  
Zhongtai International Securities Limited  
China Tonghai Securities Limited  
BOCOM International Securities Limited  
Guosen Securities (HK) Capital Company Limited  
Soochow Securities International Brokerage Limited  
Orient Securities (Hong Kong) Limited  
Eddid Securities and Futures Limited  
Gransing Securities Co., Limited  
GEO Securities Limited

### UNDERWRITING ARRANGEMENTS AND EXPENSES

#### Hong Kong Public Offering

##### *Hong Kong Underwriting Agreement*

Pursuant to the Hong Kong Underwriting Agreement, our Company has agreed to offer the 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, among other conditions, the granting of the listing of, and permission to deal in, all the Shares in issue and any Shares to be issued as mentioned in this prospectus (including any Shares which may fall to be allotted and issued pursuant to the exercise of the Over-allotment Option and any options that may be granted under the Share Option Scheme) by the Listing Committee (which shall in any event not be later than the 30th day after the date of this prospectus) and such approval and permission not having been subsequently revoked prior to the commencement of dealings in the Shares on the Stock Exchange and to certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have agreed 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 the terms and conditions of this prospectus, the Application Forms and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional on and subject to the International Underwriting Agreement having been signed and becoming unconditional and not having been terminated in accordance with its terms.

##### *Grounds for termination*

The obligations of the Hong Kong Underwriters to subscribe for, or procure subscribers for, the Hong Kong Offer Shares are subject to termination. The Joint Global Coordinators (for themselves and on behalf of the other Hong Kong Underwriters) have the right, in their sole and absolute discretion, to terminate the obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement giving notice in writing to our Company with immediate effect at any time prior to 8:00 a.m. on the Listing Date (the “**Termination Time**”) if prior to the Termination Time:

- (a) there comes to the notice of the Joint Global Coordinators:
  - (i) that any statement contained in this prospectus and the Application Forms (the “**Hong Kong Public Offering Documents**”), considered by the Joint Global Coordinators in their sole and absolute opinion to be material, was, when it was issued, or has become, untrue, incorrect or misleading in any respect or that any forecasts,

## UNDERWRITING

expressions of opinion, intention or expectation expressed in any Hong Kong Public Offering Documents and/or the relevant Application Forms are not, in the sole and absolute opinion of the Joint Global Coordinators, in all material respects fair and honest and based on reasonable assumptions, when taken as a whole; or

- (ii) that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, constitute an omission therefrom considered by the Joint Global Coordinators to be material to the Global Offering; or
  - (iii) any breach of any of the obligations imposed upon any party (other than the Joint Global Coordinators or any Hong Kong Underwriters) to the Hong Kong Underwriting Agreement or the International Underwriting Agreement; or
  - (iv) any change or development involving a prospective change in the conditions, business affairs, prospects, profits, losses or the financial or trading position or performance of any member of our Group which is considered by the Joint Global Coordinators in their sole and absolute opinion to be material in the context of the Global Offering; or
  - (v) any breach, considered by the Joint Global Coordinators in their sole and absolute opinion to be material in the context of the Global Offering, of any of the warranties contained in the Hong Kong Underwriting Agreement; or
  - (vi) approval by the Listing Committee of the listing of, and permission to deal in, the Shares is refused or not granted, other than subject to customary conditions, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or
  - (vii) our Company withdraws this prospectus (and any other documents used in connection with the contemplated subscription and sale of the Offer Shares) or the Global Offering; or
  - (viii) any person (other than the Joint Global Coordinators and any of the Hong Kong Underwriters) has withdrawn or sought to withdraw its consent to being named in this prospectus or to the issue of this prospectus; or
- (b) there shall develop, occur, exist or come into effect:
- (i) any event, or series of events, beyond the reasonable control of the Underwriters (including, without limitation, acts of government or orders of any courts, strikes, calamity, crisis, lock-outs, fire, explosion, flooding, civil commotion, acts of war, outbreak or escalation of hostilities (whether or not war is declared), acts of God, acts of terrorism, declaration of a national or international emergency, riot, public disorder, economic sanctions, outbreaks of diseases or epidemics including SARS and H5N1 and such related or mutated forms or interruption or delay in transportation); or
  - (ii) any change or development involving a prospective change, or any event or series of events likely to result in any change or development involving a prospective change, in local, national, international, financial, economic, political, military, industrial, fiscal, regulatory, currency or market conditions or matters and/or disaster or

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- monetary or trading settlement system (including without limitation any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange, the New York Stock Exchange, the London Stock Exchange, the American Stock Exchange, the Nasdaq National Market, the Chicago Board of Options Exchange, the Chicago Mercantile Exchange or the Chicago Board of Trade, or a material fluctuation in the exchange rate of Hong Kong dollar against any foreign currency, or any interruption in securities settlement or clearance service or procedures in Hong Kong or anywhere in the world); or
- (iii) any new law or regulation or change or development involving a prospective change in existing laws or regulations or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority in any of Hong Kong, the PRC, the Cayman Islands, or any other jurisdictions relevant to any members of our Group (“**Specific Jurisdictions**”); or
  - (iv) the imposition of economic sanctions, in whatever form, directly or indirectly, by, or for the United States or by the European Union (or any member thereof) on any of the Specific Jurisdictions; or
  - (v) a change or development occurs involving a prospective change in taxation or exchange control (or the implementation of any exchange control), currency exchange rates or foreign investment laws or regulations in any of the Specific Jurisdictions or affecting an investment in the Shares; or
  - (vi) any change or development involving a prospective change, or a materialisation of, any of the risks set out in “Risk factors” in this prospectus; or
  - (vii) any litigation or claim of material importance of any third party being threatened or instigated against any member of our Group; or
  - (viii) a Director being charged with an indictable offence or prohibited by operation of law or regulation or otherwise disqualified from taking part in the management of a company; or
  - (ix) the chairman or chief executive officer of our Company vacating his office in circumstances where the operations of our Group will be materially and adversely affected; or
  - (x) the commencement by any regulatory body of any public action against a Director in his or her capacity as such or an announcement by any regulatory body that it intends to take any such action; or
  - (xi) a contravention by any member of our Group of the Companies Ordinance or any of the Listing Rules; or
  - (xii) a prohibition on our Company or the Selling Shareholders for whatever reason from allotting or selling the Offer Shares pursuant to the terms of the Global Offering; or
  - (xiii) non-compliance of this prospectus (or any other documents used in connection with the subscription of the Offer Shares) or any aspect of the Global Offering with the Listing Rules or any other applicable law or regulation; or

## UNDERWRITING

- (xiv) other than with the approval of the Joint Global Coordinators, the issue or requirement to issue by our Company of a supplementary prospectus (or any other documents used in connection with the subscription or sale of the Offer Shares) pursuant to the Companies (Winding Up and Miscellaneous Provisions) Ordinance or the Listing Rules; or
- (xv) a valid demand by any creditor for repayment or payment of any indebtedness of any member of our Group or in respect of which any member of our Group is liable prior to its stated maturity; or
- (xvi) any loss or damage sustained by any member of our Group (howsoever caused and whether or not the subject of any insurance or claim against any person); or
- (xvii) a petition is presented for the winding-up or liquidation of any member of our Group or any member of our Group makes any composition or arrangement with its creditors or enters into a scheme of arrangement or any resolution is passed for the winding-up of any member of our Group or a provisional liquidator, receiver or manager is appointed 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
- (xviii) any general moratorium on commercial banking activities in Hong Kong (imposed by the Financial Secretary of Hong Kong and/or the Hong Kong Monetary Authority or otherwise), New York (imposed at the United States federal or New York state level or otherwise), or the PRC or a material disruption in commercial banking or securities settlement or clearance services in any of the Specific Jurisdictions,

which in each case in the sole and absolute opinion of the Joint Global Coordinators (for themselves and on behalf of the other Hong Kong Underwriters):

- (a) is or will or could be expected to have a material adverse effect on the general affairs, management, business, financial, trading or other condition or prospects of our Company or our Group or any member of our Group or on any present or prospective Shareholder in his, her or its capacity as such; or
- (b) has or will have or could be expected to have a material adverse effect on the success, marketability or pricing of the Global Offering or the level of applications under the Hong Kong Public Offering or the level of interest under the International Offering; or
- (c) makes it inadvisable, inexpedient or impracticable for the Global Offering to proceed or to market the Global Offering; or
- (d) would have the effect of making any part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or which prevents the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof.



## UNDERWRITING

### Undertakings to the Stock Exchange under the Listing Rules

#### *By our Company*

Pursuant to Rule 10.08 of the Listing Rules, we have undertaken to the Stock Exchange that no further shares or securities convertible into equity securities of our Company (whether or not of a class already listed) may be issued or form the subject of any agreement to such an issue within six months from the Listing Date (whether or not such issue of shares or securities will be completed within six months from the Listing Date), except for shares issued (a) pursuant to the Global Offering (including pursuant to the Capitalisation Issue, the exercise of the Over-allotment Option, or the grant of options or exercise of options to be granted under the Share Option Scheme); or (b) under any of the circumstances provided under Rule 10.08 of the Listing Rules.

#### *By our Controlling Shareholders*

Pursuant to Rule 10.07(1) of the Listing Rules, each of our Controlling Shareholders has undertaken to the Stock Exchange that, except pursuant to the Global Offering (including pursuant to the Over-allotment Option) or pursuant to any lending of Shares by each of our Controlling Shareholders pursuant to the Stock Borrowing Agreement, it/he shall not and shall procure that any other registered Shareholder(s) (if any) shall not, without the prior written consent of the Stock Exchange or unless otherwise in compliance with applicable requirements of the Listing Rules:

- (i) in the period commencing on the date of this prospectus and ending on the date which is six months from the Listing Date (the “**First Six-month Period**”), dispose of, or enter into any agreement to dispose of, or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares in respect of which it/he is shown by this prospectus to be the beneficial owners (as defined in Rule 10.07(2) of the Listing Rules) (the “**Parent Shares**”); and
- (ii) during the period of six months commencing on the date on which the First Six-month Period expires (the “**Second Six-month Period**”), dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Parent Shares 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 the controlling shareholders (as defined in the Listing Rules).

Each of our Controlling Shareholders has also undertaken to the Stock Exchange and our Company that, during the First Six-month Period and the Second Six-month Period, it/he will:

- (i) if it/he pledges or charges any securities of our Company beneficially owned by it/him in favour of an authorised institution (as defined in the Banking Ordinance, Chapter 155 of the Laws of Hong Kong) for a bona fide commercial loan, immediately inform our Company of such pledge or charge together with the number of securities so pledged or charged; and
- (ii) if it/he receives indications, either verbal or written, from the pledgee or chargee that any of the pledged or charged securities of our Company will be disposed of, immediately inform us of such indications.

Our Company shall inform the Stock Exchange in writing as soon as it has been informed of any of the matters referred to above (if any) by our Controlling Shareholders and disclose such matters by way of an announcement to be published in accordance with the Listing Rules as soon as possible.

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### **Undertakings pursuant to the Hong Kong Underwriting Agreement**

Pursuant to the Hong Kong Underwriting Agreement, our Company had undertaken to each of the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-managers, the Sole Sponsor and the Hong Kong Underwriters that, except for the issue of the Shares pursuant to the Global Offering (including pursuant to the Over-allotment Option), the Capitalisation Issue, the grant of options under the Share Option Scheme and the issue of Shares on exercise thereof or as otherwise with the Joint Global Coordinators' prior written consent, and unless in compliance with the Listing Rules, our Company will not, and will procure none of our subsidiaries will, during the First Six-month Period:

- (i) 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 options, warrants or other rights to purchase or subscribe for, make any share sale, lend or otherwise transfer or dispose of, either directly or indirectly, or repurchase, any of its share capital, debt capital or any securities of our Company or any of our subsidiaries or any interest therein (including but not limited to any warrants and securities convertible into or exercisable or exchangeable for or that represent the right to receive, or any warrants or other rights to purchase, any such share capital or securities or interest therein, as applicable); 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 of such share capital, debt capital or other securities of our Company or interest therein; or
- (iii) agree (conditionally or unconditionally) to enter into or effect any transaction with the same economic effect as any of the transactions referred to in paragraphs (i) or (ii) above; or
- (iv) announce any intention to enter into or effect any of the transactions referred to in paragraphs (i), (ii) or (iii) above;

whether any of the foregoing transactions described in paragraphs (i), (ii) or (iii) above is to be settled by delivery of share capital or such other securities, in cash or otherwise, or offer to or agree to do any of the foregoing or announce any intention to do so.

In the event of our Company entering into or agreeing to enter into any of the foregoing transactions in respect of any Share or other securities of our Company or any interest therein by virtue of the aforesaid exceptions or during the Second Six-month Period, we will take all reasonable steps to ensure that such action will not create a disorderly or false market in any of the Shares or other securities of our Company.

Each of our Controlling Shareholders has jointly and severally undertaken to each of the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-managers, the Sole Sponsor, our Company and the Hong Kong Underwriters that at any time during the First Six-month Period, it or he shall not, and shall procure that the relevant registered holder(s) of Shares and its/his

## UNDERWRITING

associates and companies controlled by it/him and any nominee or trustee holding in trust for it/him shall not, without the prior written consent of the Joint Global Coordinators unless pursuant to the Stock Borrowing Agreement or otherwise in compliance with the requirements of the Listing Rules:

- (i) 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 options, warrants or other rights to purchase or subscribe for, make any share sale, lend or otherwise transfer or dispose of, either directly or indirectly, or repurchase, any of its share capital, debt capital or any securities of our Company or any of our subsidiaries or any interest therein (including but not limited to any warrants and securities convertible into or exercisable or exchangeable for or that represent the right to receive, or any warrants or other rights to purchase, any such share capital or securities or interest therein, as applicable); 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 of such share capital, debt capital or other securities of our Company or interest therein; or
- (iii) agree (conditionally or unconditionally) to enter into or effect any transaction with the same economic effect as any of the transactions referred to in paragraphs (i) or (ii) above; or
- (iv) announce any intention to enter into or effect any of the transactions referred to in paragraphs (i), (ii) or (iii) above;

whether any of the foregoing transactions described in paragraphs (i), (ii) or (iii) above is to be settled by delivery of share capital or such other securities, in cash or otherwise, or offer to or agree to do any of the foregoing or announce any intention to do so.

Each of our Controlling Shareholders has also jointly and severally undertaken to the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-managers, the Sole Sponsor, our Company and the Hong Kong Underwriters that it/he shall not, and shall procure that the relevant registered holder(s) of Shares and its/his associates or companies controlled by it/him and any nominee or trustee holding in trust for it or him shall not, without the prior written consent of the Joint Global Coordinators and unless in compliance with the Listing Rules, at any time during the Second Six-month Period, dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of any relevant securities referred to in paragraphs (i), (ii), (iii) or (iv) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, transfer, he/it will cease to be a controlling shareholder (as defined in the Listing Rules) or would together with the other Controlling Shareholders cease to be the controlling shareholders (as defined in the Listing Rules).

In the event of a disposal of any Shares or securities of our Company or any interest therein within the Second Six-month Period set out in paragraphs (i), (ii), (iii) or (iv) above, the relevant Controlling Shareholder shall take all reasonable steps to ensure that such a disposal will not create a disorderly or false market for any Shares or other securities of our Company.

Each of our Controlling Shareholders shall, and shall procure that its associates and companies controlled by him/her/it and nominees or trustees holding in trust for him/her/it shall, comply with all the restrictions and requirements under the Listing Rules on the sale, transfer or disposal by him/her/it or by the registered holder controlled by him/her/it of any Shares.

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Each of our Controlling Shareholders has further undertaken jointly and severally to each of the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-managers, the Sole Sponsor, our Company and the Hong Kong Underwriters that during the First Six-month Period and the Second Six-month Period, it/he will:

- (i) when it/he pledges or charges any securities or interests in the securities of our Company, immediately inform our Company and the Joint Global Coordinators in writing of such pledges or charges together with the number of securities and nature of interests so pledged or charged; and
- (ii) when it/he receives indications, either verbal or written, from any pledgee or chargee that any of the pledged or charged securities or interests in the securities of our Company will be sold, transferred or disposed of, immediately inform our Company and the Joint Global Coordinators in writing of such indications.

Our Company will inform the Stock Exchange as soon as we have been informed of the matters above (if any) by our Controlling Shareholders and to make a public disclosure of such matters as soon as possible thereafter in accordance with the Listing Rules.

### **The International Offering**

In connection with the International Offering, it is expected that our Company will enter into the International Underwriting Agreement with, among others, the International Underwriters, on terms and conditions that are substantially similar to the Hong Kong Underwriting Agreement as described above and on the additional terms described below. Under the International Underwriting Agreement, the International Underwriters will severally agree to subscribe or purchase or procure subscribers or purchasers for the International Offer Shares being offered pursuant to the International Offering.

It is expected that, pursuant to the International Underwriting Agreement, our Company, our executive Directors and our Controlling Shareholders will give undertakings similar to those given pursuant to the Hong Kong Underwriting Agreement, as described in “Underwriting arrangements and expenses — Hong Kong Public Offering — Undertakings pursuant to the Hong Kong Underwriting Agreement” in this section.

It is expected that each of our Controlling Shareholders will undertake to the International Underwriters not to dispose of, or enter into any agreement to dispose of, or otherwise create any options, rights, interest or encumbrances in respect of any of our Shares held by him/it in our Company for a period similar to that given by them pursuant to the Hong Kong Underwriting Agreement as described in “Underwriting arrangements and expenses — Hong Kong Public Offering — Undertakings pursuant to the Hong Kong Underwriting Agreement” in this section.

### **Commissions and expenses**

The Underwriters will receive a gross underwriting commission at the rate of 4.3% of the aggregate Offer Price payable for the Offer Shares (including shares to be issued pursuant to the Over-allotment Option), out of which they will pay any sub-underwriting commissions. Such commission, together with the Stock Exchange listing fees, the Stock Exchange trading fees, the SFC transaction levy, legal and other professional fees, printing, and other expenses relating to the Global Offering, is currently estimated to be approximately HK\$43.7 million in aggregate (based on an Offer Price of HK\$1.75 per Share, being the mid-point of the indicative Offer Price range of HK\$1.63 and HK\$1.87 and the assumption that the Over-allotment Option is not exercised) and shall be borne by our Company and the

## **UNDERWRITING**

Selling Shareholders on a pro-rata basis with reference to the number of new Shares and Sale Shares to be offered under the Global Offering. In addition, our Company and the Selling Shareholders may also in our sole discretion pay to the Underwriters or any one of them an incentive fee of not more than 0.4% of the aggregate Offer Price payable for the Offer Shares (including Shares to be issued pursuant to the Over-allotment Option).

### **UNDERWRITERS' INTERESTS IN OUR COMPANY**

The Underwriters will receive an underwriting commission. Particulars of these underwriting commission and expenses are set forth in “Underwriting arrangements and expenses — Commissions and expenses” above.

Save for their obligations under the Underwriting Agreements, none of the Underwriters is interested legally or beneficially in any shares of any member of our Group nor has any right or option (whether legally enforceable or not) to subscribe for or purchase or to nominate persons to subscribe for or purchase securities in any member of our Group nor any interest in the Global Offering.

### **INDEPENDENCE OF THE SOLE SPONSOR**

WAG Worldsec Corporate Finance Limited, being the Sole Sponsor, satisfies the independence criteria applicable to sponsors as set out in Rule 3A.07 of the Listing Rules.

### **RESTRICTIONS ON THE OFFER SHARES**

No action has been taken to permit a public offering of the Offer Shares other than in Hong Kong, or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation.

## STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

### THE HONG KONG PUBLIC OFFERING

#### Number of Shares initially offered

Our Company is initially offering 10,000,000 Shares at the Offer Price, representing 10% of the 100,000,000 Shares initially available under the Global Offering, for subscription by the public in Hong Kong. Subject to adjustment as mentioned below, the number of Shares offered under the Hong Kong Public Offering will represent 2.5% of the total issued share capital of our Company immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised. The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. Completion of the Hong Kong Public Offering is subject to the conditions set out in “Conditions of the Hong Kong Public Offering” in this section.

#### Conditions of the Hong Kong Public Offering

Acceptance of all applications for the Hong Kong Offer Shares in the Hong Kong Public Offering will be conditional on:

- (i) the Listing Committee granting the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering (including any Shares which may be issued pursuant to the exercise of the Over-allotment Option or any option which may be granted under the Share Option Scheme) (which shall in any event not be later than the 30th day after the date of this prospectus);
- (ii) the Offer Price having been fixed on or around the Price Determination Date;
- (iii) the execution and delivery of the International Underwriting Agreement on or around the Price Determination Date; and
- (iv) the obligations of the Underwriters under each of the respective Underwriting Agreements becoming and remaining unconditional and not having been terminated in accordance with the terms of the respective agreements, in each case on or before the dates and times specified in the respective Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times).

**If, for any reason, the Offer Price is not agreed on or before Monday, 13 July 2020 between our Company (for ourselves and on behalf of the Selling Shareholders) and the Joint Global Coordinators (for themselves and on behalf of the other Underwriters), 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 and remaining unconditional and not having been terminated in accordance with its respective terms.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Hong Kong Public Offering will be published by us on the websites of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and our website at [www.dingliangame.com](http://www.dingliangame.com) on the next day following such lapse. In

## STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

such situation, all application monies will be refunded, without interest, on the terms set out in “How to apply for the Hong Kong Offer Shares” in this prospectus. In the meantime, all application monies will be held in separate bank account(s) with the receiving bank or other licensed bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

Share certificates for the Offer Shares will only become valid certificates of title at 8:00 a.m. (Hong Kong time) on the Listing Date provided that: (i) the Global Offering has become unconditional; and (ii) neither of the Underwriting Agreements has been terminated in accordance with the terms therein.

### **Allocation**

For allocation purposes only, the Hong Kong Offer Shares initially being offered for subscription under the Hong Kong Public Offering (after taking into account any adjustment in the number of Offer Shares allocated between the Hong Kong Public Offering and the International Offering) will be divided equally into two pools (subject to adjustment of odd lot size). Pool A will comprise 5,000,000 Hong Kong Offer Shares and Pool B will comprise 5,000,000 Hong Kong Offer Shares, both of which are available on a fair basis to successful applicants. All valid applications that have been received for Hong Kong Offer Shares with a total amount (excluding the brokerage fee, the SFC transaction levy and the Stock Exchange trading fee) of HK\$5 million or below will fall into Pool A and all valid applications that have been received for Hong Kong Offer Shares with a total amount (excluding the brokerage fee, the SFC transaction levy and the Stock Exchange trading fee) of over HK\$5 million and up to the total value of Pool B, will fall into Pool B.

Applicants should be aware that applications in Pool A and Pool B are likely to receive different allocation ratios. If Hong Kong Offer Shares in one pool (but not both pools) are undersubscribed, the surplus Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. Applicants can only receive an allocation of Hong Kong Offer Shares from either Pool A or Pool B but not from both pools and may only apply for Hong Kong Offer Shares in either Pool A or Pool B. In addition, multiple or suspected multiple applications within either pool or between pools will be rejected. No application will be accepted from applicants for more than 5,000,000 Hong Kong Offer Shares (being 50% of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering).

### **Reallocation**

Pursuant to Guidance Letter HKEX-GL91-18 issued by the Stock Exchange and Practice Note 18 of the Listing Rules, the allocation of Shares between the Public Offer and the Placing is subject to reallocation on the following basis.

- (a) Where the International Offer Shares are fully subscribed or oversubscribed:
  - (i) if the Hong Kong Offer Shares are undersubscribed, the Joint Global Coordinators have the authority to reallocate all or any unsubscribed Hong Kong Offer Shares to the International Offering, in such proportions as the Joint Global Coordinators deem appropriate;
  - (ii) if the Hong Kong Offer Shares are not undersubscribed but the number of Offer Shares validly applied for under the Hong Kong Public Offering represents less than 15 times the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then up to 10,000,000 Offer Shares may be reallocated

## STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

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 Offering will be increased to 20,000,000 Offer Shares, representing 20% of the number of the Offer Shares initially available under the Global Offering;

- (iii) if the number of Shares validly applied for in the Hong Kong Public Offering represents (I) 15 times or more but less than 50 times, (II) 50 times or more but less than 100 times, and (III) 100 times or more, of the number of Hong Kong Offer Shares initially available under the Hong Kong Public Offering, the total number of Hong Kong Offer Shares available under the Hong Kong Public Offering will be increased to 30,000,000, 40,000,000 and 50,000,000 Shares, respectively, representing 30% (in the case of (I)), 40% (in the case of (II)) and 50% (in the case of (III)), respectively, of the total number of Offer Shares initially available under the Global Offering.

(b) Where the International Offer Shares are undersubscribed:

- (i) if the Hong Kong Offer Shares are undersubscribed, the Global Offering will not proceed unless the Underwriters would subscribe or procure subscribers for their respective applicable proportions of the Offer Shares being offered which are not taken up under the Global Offering on the terms and conditions of this prospectus, the Application Forms and the Underwriting Agreements; or
- (ii) if the Hong Kong Offer Shares are fully subscribed or oversubscribed irrespective of the number of times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then up to 10,000,000 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 Offering will be increased to 20,000,000 Offer Shares, representing 20% of the number of the Offer Shares initially available under the Global Offering.

In the event of reallocation of Offer Shares between the Hong Kong Public Offering and the International Offering in the circumstances where the International Offer Shares are fully subscribed or oversubscribed and the Hong Kong Offer Shares are fully subscribed or oversubscribed by less than 15 times under paragraph (a)(ii) above or the International Offer Shares are undersubscribed and the Hong Kong Offer Shares are fully subscribed or oversubscribed under paragraph (b)(ii) above, irrespective of the number of times of the initial number of the Hong Kong Offer Shares, the final Offer Price shall be fixed at the low-end of the indicative Offer Price range (i.e. HK\$1.63 per Offer Share) stated in this prospectus.

In accordance with Guidance Letter HKEX-GL91-18 issued by the Stock Exchange, if such reallocation is conducted other than pursuant to Practice Note 18 of the Listing Rules, the maximum total number of Offer Shares that may be reallocated to the Hong Kong Public Offering following such reallocation shall be not more than double the initial allocation to the Hong Kong Public Offering (i.e. up to a maximum of 20,000,000 Offer Shares).

In the event of a reallocation of Offer Shares between the Hong Kong Public Offering and the International Offering in circumstances under paragraph (a)(ii), (a)(iii) and (b)(ii) above, the number of Offer Shares allocated to the International Offering will be correspondingly reduced. 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 Joint Global Coordinators and such additional Offer Shares will be allocated to pool A and pool B equally. If the Hong



## STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

Kong Offer Shares are not fully subscribed, the Joint Global Coordinators have the authority to reallocate all or any unsubscribed Hong Kong Public Offer Shares to the International Offering, in such proportions as the Joint Global Coordinators deem appropriate.

### **Applications**

The Joint Global Coordinators may require any investor who has been offered Shares under the International Offering, and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Joint Global Coordinators so as to allow it to identify the relevant applications under the Hong Kong Public Offering and to ensure that it is excluded from any application for Shares under the Hong Kong Public Offering.

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 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 or confirmation is breached or untrue (as the case may be) or it has been or will be placed or allocated Offer Shares under the International Offering.

References in this prospectus to applications, Application Forms, application monies or to the procedure for application relate solely to the Hong Kong Public Offering.

### **THE INTERNATIONAL OFFERING**

#### **Number of Shares offered**

The number of Shares to be initially offered for subscription or purchase under the International Offering will be 90,000,000 Shares, comprising 66,000,000 new Shares and 24,000,000 Sale Shares, representing 90% of the Offer Shares under the Global Offering. The International Offering is subject to the Hong Kong Public Offering being unconditional.

#### **Allocation**

Allocation of the Offer Shares pursuant to the International Offering will be determined by the Joint Global Coordinators and will be based on a number of factors including the level and timing of demand, total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further, and/or hold or sell the Offer Shares after Listing. Such allocation may be made to professional, institutional and other investors and is intended to result in a distribution of the Offer Shares on a basis which would lead to the establishment of a stable shareholder base to the benefit of our Company and our Shareholders as a whole.

### **OVER-ALLOTMENT OPTION**

Our Company is expected to grant to the Joint Global Coordinators (for themselves and on behalf of the other International Underwriters) the Over-allotment Option, exercisable by the Joint Global Coordinators at any time from the date of this prospectus to the 30th day from the last day for lodging applications under the Global Offering to cover, amongst others, over-allocations in the International Offering. Pursuant to the Over-allotment Option, our Company may be required to allot and issue up to 15,000,000 additional Shares, representing 15% of the number of Offer Shares initially available under the Global Offering, at the Offer Price. If the Over-allotment Option is exercised in full, the additional

## STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

15,000,000 Shares will represent approximately 3.6% of our Company's enlarged issued share capital respectively immediately after completion of the Global Offering and the exercise in full of the Over-allotment Option. If the Over-allotment Option is exercised, an announcement will be made.

### STABILISATION

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, or purchase, the newly issued securities in the secondary market, during a specified period of time, to retard and, if possible, prevent a decline in the initial offer prices of the securities. In Hong Kong and certain other jurisdictions, activity aimed at reducing the market price is prohibited, and the price at which stabilisation is effected is not permitted to exceed the offer price.

In connection with the Global Offering, Huajin Securities (International) Limited, as stabilising manager or its authorised agents, may, but is not obliged to, over-allocate Shares and/or effect any other transactions with a view to stabilising or supporting the market price of our Shares at a level higher than which might otherwise prevail in the open market, for a limited period. Such stabilising activity may include stock borrowing, making market purchases of Shares in the secondary market or selling Shares to liquidate a position held as a result of those purchases, as well as exercising the Over-allotment Option. Any such stabilising activity will be effected in compliance with all applicable laws, rules and regulatory requirements in Hong Kong on stabilisation including the Securities and Futures (Price Stabilizing) Rules made under the SFO. However, there is no obligation on the Stabilising Manager or its authorised agents to conduct any such stabilising activity, which if commenced, will be done at the absolute discretion of the Stabilising Manager or its authorised agents and may be discontinued at any time. The number of Shares that may be overallocated will not exceed the number of Shares that may be issued under the Over-allotment Option, namely 15,000,000 Shares, which is 15% of the number of Shares initially available under the Global Offering.

As a result of effecting transactions to stabilise or maintain the market price of our Shares, the Stabilising Manager or its authorised agents may maintain a long position in our Shares. The size of the long position, and the period for which the Stabilising Manager or its authorised agents will maintain the long position is at the discretion of the Stabilising Manager or its authorised agents and is uncertain. In the event that the Stabilising Manager or its authorised agents liquidates this long position by making sales in the open market, this may lead to a decline in the market price of our Shares.

Stabilising activity by the Stabilising Manager or its authorised agents is not permitted to support the price of our Shares for longer than the stabilising period, which begins on the day on which trading of our Shares commences on the Stock Exchange and ends on the 30th day from the last day for lodging applications under the Global Offering. The stabilising period is expected to end on Wednesday, 5 August 2020.

Any stabilising activity taken by the Stabilising Manager or its authorised agents may not necessarily result in the market price of our Shares staying at or above the Offer Price either during or after the stabilising period. Bids for or market purchases of our Shares by the Stabilising Manager or its authorised agents may be made at a price at or below the Offer Price and therefore at or below the price paid for our Shares by investors.

In order to facilitate the settlement of over-allocations, the Stabilising Manager or its authorised agents may, among other means, purchase Shares in the secondary market, enter into stock borrowing arrangements with holders of Shares, exercise the Over-allotment Option, engage in a combination of these means or otherwise as may be permitted under applicable laws. Any such secondary market purchases will be made in compliance with all applicable laws, rules and regulations.

## STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

### STOCK BORROWING AGREEMENT

In order to facilitate the settlement of over allocations in connection with the Global Offering, the Stabilising Manager may choose to borrow, whether on its own or through its affiliates, up to 15,000,000 Shares, representing 15% of the Offer Shares, from Sun JH to cover over allocation under the stock borrowing arrangement (being the maximum number of Offer Shares which may be issued upon exercise of the Over-allotment Option), or acquire Shares from other sources, including exercising the Over-allotment Option.

If the Stock Borrowing Agreement is entered into, it will only be effected by the Stabilising Manager or its agent for settlement of over allocation in the International Offering and such arrangement is not subject to the restrictions of Rule 10.07(1) of the Listing Rules provided that the requirements set out in Rule 10.07(3) of the Listing Rules are complied with. The same number of Shares so borrowed must be returned to Sun JH or its nominees on or before the third business day following the earlier of (a) the last day on which the Over-allotment Option may be exercised, or (b) the day on which the Over-allotment Option is exercised in full, or (c) such earlier time as may be agreed in writing between the Stabilising Manager and Sun JH. The stock borrowing arrangement will be effected in compliance with all applicable laws, rules and regulatory requirements. No payment will be made to Sun JH by the Stabilising Manager or its agent in relation to the Stock Borrowing Agreement.

### PRICING AND ALLOCATION

#### Determining the Offer Price

The International Underwriters will be soliciting from prospective investors indications of interest in acquiring Offer Shares in the International Offering. Prospective professional, institutional and other investors will be required to specify the number of Offer Shares under the International Offering which 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 Monday, 6 July 2020 and in any event on or before Monday, 13 July 2020, by agreement between the Joint Global Coordinators (for themselves and on behalf of the other Underwriters) and our Company (for ourselves and on behalf of the Selling Shareholders) and the number of Offer Shares to be allocated under the various offerings will be determined shortly thereafter.

#### Offer Price range

The Offer Price will be not more than HK\$1.87 per Share and is expected to be not less than HK\$1.63 per Share, unless otherwise announced not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, as further explained below. 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.

## STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

### Price payable on application

Applicants for Hong Kong Offer Shares under the Hong Kong Public Offering are required to pay, on application, the maximum Offer Price of HK\$1.87 for each Hong Kong Offer Share (plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%), amounting to a total of HK\$3,777.69 for each board lot of 2,000 Shares. If the Offer Price is less than HK\$1.87, appropriate refund payments (including the brokerage, SFC transaction levy and the Stock Exchange trading fee attributable to the surplus application monies, without any interest) will be made to successful applications.

If, for any reason, our Company (for ourselves and on behalf of the Selling Shareholders) and the Joint Global Coordinators (for themselves and on behalf of the other Underwriters) are unable to reach agreement on the Offer Price on or before Monday, 13 July 2020, the Global Offering will not proceed and will lapse.

### Reduction in indicative Offer Price range and/or number of Offer Shares

The Joint Global Coordinators (for themselves and on behalf of the other Underwriters) may, where considered appropriate, based on the level of interest expressed by prospective professional, institutional and other investors during the book-building process, reduce the indicative offer price range and/or the number of Offer Shares below those 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, we will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, cause to be published on the website of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and on the website of our Company ([www.dingliangame.com](http://www.dingliangame.com)) notices of the reduction. Upon issue of such a notice, the revised indicative offer price range and/or number of Offer Shares will be final and conclusive and the Offer Price, if agreed upon by the Joint Global Coordinators (for themselves and on behalf of the other Underwriters) and our Company (for ourselves and on behalf of the Selling Shareholders) will be fixed within such revised range. Such notice will also include confirmation or revision, as appropriate, of the working capital statement and the Global Offering statistics as currently set out in this prospectus, and any other financial information which may change materially as a result of such reduction.

Before submitting applications for Hong Kong 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. In the absence of any such announcement so published, the number of Offer Shares will not be reduced and/or the Offer Price, if agreed upon by the Joint Global Coordinators (for themselves and on behalf of the other Underwriters) and our Company (for ourselves and on behalf of the Selling Shareholders), will under no circumstances be set outside the Offer Price range as stated in this prospectus. However, if the number of Offer Shares and/or the Offer Price range is reduced, applicants under the Hong Kong Public Offering 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.

In the event of a reduction in the number of Offer Shares, the Joint Global Coordinators may, at their discretion, reallocate the number of Offer Shares to be offered in the Hong Kong Public Offering and the International Offering, provided that the number of Offer Shares comprised in the Hong Kong Public Offering shall not be less than 10% of the total number of Offer Shares available under the Global Offering. The Offer Shares to be offered in the Hong Kong Public Offering and the Offer Shares to be offered in the International Offering may, in certain circumstances, be reallocated between these offerings at the discretion of the Joint Global Coordinators.

## STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

### **Announcement of Offer Price and basis of allocations**

The final Offer Price, the level of indications of interest in the Global Offering, the results of applications and the basis of allotment of the Hong Kong Offer Shares are expected to be announced on Tuesday, 14 July 2020 and to be published on the website of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and on the website of our Company ([www.dingliangame.com](http://www.dingliangame.com)).

### **UNDERWRITING**

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement and is subject to our Company (for ourselves and on behalf of the Selling Shareholders) and the Joint Global Coordinators (for themselves and on behalf of the other Hong Kong Underwriters) agreeing on the Offer Price.

We expect to enter into the International Underwriting Agreement relating to the International Offering on or around the Price Determination Date.

These underwriting arrangements, and the Underwriting Agreements, are summarised in “Underwriting” in this prospectus.

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

All necessary arrangements have been made enabling the Shares to be admitted into CCASS. If the 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 Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

### **DEALING ARRANGEMENTS**

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Wednesday, 15 July 2020, it is expected that dealings in the Shares on the Stock Exchange will commence at 9:00 a.m. on Wednesday, 15 July 2020. The Shares will be traded in board lots of 2,000 Shares.

# HOW TO APPLY FOR THE HONG KONG OFFER SHARES

## 1. HOW TO APPLY

If you apply for Hong Kong Offer Shares, then you may not apply for or indicate an interest for International Offer Shares.

To apply for Hong Kong Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **HK eIPO White Form** at [www.hkeipo.hk](http://www.hkeipo.hk) or the **IPO App**; or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

Our Company, the Joint Global Coordinators, the **HK eIPO White Form** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

## 2. WHO CAN APPLY

You can apply for Hong Kong Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC.

If you apply online through the **HK eIPO White Form**, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly 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 Joint Global Coordinators may accept it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of **HK eIPO White Form** for the Hong Kong Offer Shares.

## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Offer Shares if you:

- are an existing beneficial owner of Shares in our Company and/or any our subsidiaries;
- are a Director or the chief executive officer of our Company and/or any of our subsidiaries;
- are an associate (as defined in the Listing Rules) of any of the above;
- are a connected person (as defined in the Listing Rules) of our Company or will become a connected person of our Company immediately upon completion of the Global Offering; or
- 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**.

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 from 9:00 a.m. on Tuesday, 30 June 2020 until 12:00 noon on Monday, 6 July 2020 from:

(i) the following offices of the Hong Kong Underwriters:

- **Huajin Securities (International) Limited**  
Suite 1101, 11/F Champion Tower  
3 Garden Road, Central  
Hong Kong
- **Zhongtai International Securities Limited**  
19/F Li Po Chun Chambers  
189 Des Voeux Road Central, Central  
Hong Kong
- **China Tonghai Securities Limited**  
18/F-19/F China Building  
29 Queen's Road Central  
Hong Kong
- **BOCOM International Securities Limited**  
15/F Man Yee Building  
68 Des Voeux Road Central  
Hong Kong

## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- **Guosen Securities (HK) Capital Company Limited**  
Suites 3207-3212 on Level 32  
One Pacific Place, 88 Queensway  
Hong Kong
- **Soochow Securities International Brokerage Limited**  
Level 17, Three Pacific Place  
1 Queen's Road East  
Hong Kong
- **Orient Securities (Hong Kong) Limited**  
28th and 29th Floor  
100 Queen's Road Central  
Hong Kong
- **Eddid Securities and Futures Limited**  
23/F, YF Life Tower  
33 Lockhart Road, Wan Chai  
Hong Kong
- **Gransing Securities Co., Limited**  
Unit 2508, 25/F., Cosco Tower  
183 Queen's Road Central  
Hong Kong
- **GEO Securities Limited**  
Room 1707, Harcourt House  
39 Gloucester Road  
Wanchai  
Hong Kong

- (ii) any of the following branches of the receiving bank, Standard Chartered Bank (Hong Kong) Limited:

District	Branch Name	Address
Hong Kong Island	Des Voeux Road Branch	Standard Chartered Bank Building, 4-4A, Des Voeux Road Central, Central
	Wanchai Southorn Branch	Shop C2 on G/F and 1/F to 2/F, Lee Wing Building, No. 156-162 Hennessy Road, Wanchai
Kowloon	Kwun Tong Branch	G/F & 1/F One Pacific Centre, 414 Kwun Tong Road, Kwun Tong



## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

District	Branch Name	Address
	68 Nathan Road Branch	Basement, Shop B1, G/F and M/F Golden Crown Court, 66-70 Nathan Road, Tsimshatsui
New Territories	Metroplaza Branch	Shop 473B, Level 4, Metroplaza, 223 Hing Fong Road, Kwai Fong, New Territories

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Tuesday, 30 June 2020 until 12:00 noon on Monday, 6 July 2020 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker, who may have such Application Forms and this prospectus available.

### Time for lodging Application Forms

Both **WHITE** and **YELLOW** Application Forms completed in all respects in accordance with the instructions printed thereon, to which cheques or banker's cashier orders payable to "**HORSFORD NOMINEES LIMITED — SINO-ENTERTAINMENT TECHNOLOGY PUBLIC OFFER**" should be securely stapled, should be deposited in the special collection boxes provided at any of the designated branches of the receiving bank referred to above on the following dates during the following times:

<b>Tuesday, 30 June 2020</b>	—	<b>9:00 a.m. to 5:00 p.m.</b>
<b>Thursday, 2 July 2020</b>	—	<b>9:00 a.m. to 5:00 p.m.</b>
<b>Friday, 3 July 2020</b>	—	<b>9:00 a.m. to 5:00 p.m.</b>
<b>Saturday, 4 July 2020</b>	—	<b>9:00 a.m. to 1:00 p.m.</b>
<b>Monday, 6 July 2020</b>	—	<b>9:00 a.m. to 12:00 noon</b>

The application lists will open from 11:45 a.m. to 12:00 noon on Monday, 6 July 2020 (or such later date as may apply in case of certain bad weather conditions as described in the paragraph headed "10. Effect of bad weather and/or extreme conditions on the opening of the application lists" in this section).

#### 4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **HK eIPO White Form**, among other things, you:

- (a) undertake to execute all relevant documents and instruct and authorise our Company and/or the Joint Global Coordinators (or their agents or nominees), as agents of our Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;

## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- (b) agree to comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Companies Ordinance, the Cayman Islands Companies Law and the Articles of Association;
- (c) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;
- (d) confirm that you have received and read this prospectus and have 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;
- (e) confirm that you are aware of the restrictions on the Global Offering in this prospectus;
- (f) agree that none of our Company, the Selling Shareholders, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- (g) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering nor participated in the International Offering;
- (h) agree to disclose to our Company, our Hong Kong Branch Share Registrar, the receiving bank, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-managers, the Underwriters and/or their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering any personal data which they may require about you and the person(s) for whose benefit you have made the application;
- (i) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of our Company, the Selling Shareholders, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-managers, the Underwriters and/or their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Forms;
- (j) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (k) agree that your application will be governed by the laws of Hong Kong;
- (l) represent, warrant and undertake that (i) you understand that the Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Hong Kong Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- (m) warrant that the information you have provided is true and accurate;

## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- (n) agree to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;
- (o) authorise our Company to place your name(s) or the name of the HKSCC Nominees, on our Company's register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and our Company and/or its agents to send any share certificate(s) and/or any 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;
- (p) 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;
- (q) understand that our Company and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;
- (r) (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
- (s) (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 or to the **HK eIPO White Form** Service Provider; and (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

### **Additional instructions for Yellow Application Form**

You may refer to the **YELLOW** Application Form for details.

## **5. APPLYING THROUGH 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** for the Offer Shares to be allotted and registered in their own names through the designated website at [www.hkeipo.hk](http://www.hkeipo.hk) or the **IPO App**.

Detailed instructions for application through the **HK eIPO White Form** service are on the designated website at [www.hkeipo.hk](http://www.hkeipo.hk) or the **IPO App**. If you do not follow the instructions, your application may be rejected and may not be submitted to our Company. If you apply through the designated website at [www.hkeipo.hk](http://www.hkeipo.hk) or the **IPO App**, you authorise the **HK eIPO White Form** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **HK eIPO White Form** service.

## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

### **Time for submitting applications under the HK eIPO White Form**

You may submit your application through the designated website of the **HK eIPO White Form** service provider at [www.hkeipo.hk](http://www.hkeipo.hk) or the **IPO App** (24 hours daily, except on the last application day) from 9:00 a.m. on Tuesday, 30 June 2020 until 11:30 a.m. on Monday, 6 July 2020 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Monday, 6 July 2020 (or such later date as may apply as described in the paragraph headed “10. Effect of bad weather and/or extreme conditions on the opening of the application lists” in this section).

### **No multiple applications**

If you apply by means of **HK eIPO White Form**, once you complete payment in respect of any electronic application instructions given by you or for your benefit through the **HK eIPO White Form** to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an electronic application instruction under **HK eIPO White Form** more than once and obtaining different payment reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **HK eIPO White Form** or by any other means, all of your applications are liable to be rejected.

### **Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance**

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

## **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).

## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited  
Customer Service Center  
1/F, One & Two Exchange Square  
8 Connaught Place  
Central  
Hong Kong

and complete an input request form.

You can also collect a 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 our Company, the Joint Global Coordinators and our Hong Kong Branch Share Registrar.

### **Giving electronic application instructions to HKSCC via CCASS**

Where you have given electronic application instructions to apply for the Hong Kong Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (a) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (b) HKSCC Nominees will do the following things on your behalf:
  - (i) 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;
  - (ii) agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated;
  - (iii) undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering;
  - (iv) (if the electronic application instructions are given for your benefit) declare that only one set of **electronic application instructions** has been given for your benefit;
  - (v) (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;

## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- (vi) confirm that you understand that our Company, our Directors and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted if you make a false declaration;
- (vii) authorise our Company to place HKSCC Nominees' name on our 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;
- (viii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
- (ix) 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;
- (x) agree that none of our Company, the Selling Shareholders, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
- (xi) agree to disclose your personal data to our Company, our Hong Kong Branch Share Registrar, receiving bank, the Sole Sponsor, the Joint Global Coordinators, the Underwriters and/or its respective advisers and agents;
- (xii) 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;
- (xiii) 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 our Company agreeing that it will not offer any Hong Kong Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;

## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- (xiv) 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 our Company's announcement of the Hong Kong Public Offering results;
- (xv) 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;
- (xvi) agree with our Company, for itself and for the benefit of each Shareholder (and so that our 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 (Winding Up and Miscellaneous Provisions) Ordinance, Companies Ordinance and the Articles of Association; and
- (xvii) 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 our 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 Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

### **Minimum purchase amount and permitted numbers**

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 2,000 Hong Kong Offer Shares. Instructions for more than 2,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

### Time for inputting electronic application instructions

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates<sup>(1)</sup>:

<b>Tuesday, 30 June 2020</b>	—	<b>9:00 a.m. to 8:30 p.m.</b>
<b>Thursday, 2 July 2020</b>	—	<b>8:00 a.m. to 8:30 p.m.</b>
<b>Friday, 3 July 2020</b>	—	<b>8:00 a.m. to 8:30 p.m.</b>
<b>Monday, 6 July 2020</b>	—	<b>8:00 a.m. to 12:00 noon</b>

*Note:*

1. These times in this sub-section are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants and/or CCASS Investor Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Tuesday, 30 June 2020 until 12:00 noon on Monday, 6 July 2020 (24 hours daily, except on the last application day) or such later time as described in the paragraph headed “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.

### Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each 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 our Company, the Hong Kong Branch Share Registrar, the receiving bank, the Sole Sponsor, the Joint Global Coordinators, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.



## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

### 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** is also only a facility provided by the **HK eIPO White Form** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. Our Company, our Directors, the Joint Global Coordinators, the Sole Sponsor 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** 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 Monday, 6 July 2020 or such later time under the paragraph headed "10. Effect of bad weather and/or extreme conditions on the opening of the application lists" in this section.

### 8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple application for the Hong Kong Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked "For nominees" you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

**All** of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form (whether individually or jointly) or by giving **electronic application instructions** to HKSCC or through **HK eIPO White Form** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company, then the application will be treated as being for your benefit.

"**Unlisted company**" means a company with no equity securities listed on the Stock Exchange.

"**Statutory control**" means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or

## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

### 9. HOW MUCH ARE THE HONG KONG OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

You must pay the Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **HK eIPO White Form** in respect of a minimum of 2,000 Hong Kong Offer Shares. Each application or electronic application instructions in respect of more than 2,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at [www.hkeipo.hk](http://www.hkeipo.hk) or the **IPO App**.

If your application is successful, brokerage will be paid to the Exchange Participants (as defined in the Listing Rules), and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For details on the Offer Price, please see “Structure and conditions of the Global Offering” in this prospectus.

### 10. EFFECT OF BAD WEATHER AND/OR EXTREME CONDITIONS ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if 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 Monday, 6 July 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 Monday, 6 July 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.

## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

### 11. PUBLICATION OF RESULTS

Our Company expects to publish the announcement on the level of applications in the Hong Kong Public Offering, the level of indications of interest in the International Offering and the basis of allocation of the Hong Kong Offer Shares on Tuesday, 14 July 2020 on the website of our Company at [www.dingliangame.com](http://www.dingliangame.com) and the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk).

Results of allocations of the Hong Kong Public Offering, the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants (where appropriate) and the number of Hong Kong Offer Shares successfully applied for under **WHITE** and **YELLOW** Application Forms, by **HK eIPO White Form** and by giving **electronic application instructions** to HKSCC via CCASS, will be made available at the times and date and in the manner specified below:

- in the announcement to be posted on our Company's website at [www.dingliangame.com](http://www.dingliangame.com) and the Stock Exchange's website at [www.hkexnews.hk](http://www.hkexnews.hk) by no later than 9:00 a.m. on Tuesday, 14 July 2020;
- from the designated results of allocations website at [www.tricor.com.hk/ipo/result](http://www.tricor.com.hk/ipo/result) (alternatively: [www.hkeipo.hk/IPOResult](http://www.hkeipo.hk/IPOResult)) or from "Allotment Result" function in the **IPO App** with a "search by ID/Business Registration Number" function on a 24-hour basis from 8:00 a.m. on Tuesday, 14 July 2020 to 12:00 midnight on Monday, 20 July 2020;
- by telephone enquiry line by calling 3691-8488 between 9:00 a.m. and 6:00 p.m. from Tuesday, 14 July 2020 to Friday, 17 July 2020;
- in the special allocation results booklets which will be available for inspection during opening hours from Tuesday, 14 July 2020 to Thursday, 16 July 2020 at all the receiving bank's designated branches.

If our 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" in this prospectus.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

### 12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOCATED HONG KONG OFFER SHARES

You should note the following situations in which the Hong Kong Offer Shares will not be allotted to you:

#### (i) If your application is revoked:

By completing and submitting an Application Form or giving electronic application instructions to HKSCC or through 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

## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with our 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 announcement of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

**(ii) If our Company or its agents exercise their discretion to reject your application:**

Our Company, the Joint Global Coordinators, the **HK eIPO White Form** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

**(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 our 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 on the designated website;

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- 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;
- our Company or the Joint Global Coordinators believe that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering.

### 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 Offer Price of HK\$1.87 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offering set out in "Structure and conditions of the Global Offering — The Hong Kong Public Offering — Conditions of the Hong Kong Public Offering" in this prospectus are not fulfilled or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker's cashier order will not be cleared.

Any refund of your application monies will be made on Tuesday, 14 July 2020.

### 14. DISPATCH/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).

Our Company will not issue temporary documents of title in respect of the Shares or receipt for application monies paid.

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 Offer Price of HK\$1.87 per Offer Share (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest).

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Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(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 monies as mentioned below, any refund cheques and share certificates are expected to be posted on or around Tuesday, 14 July 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 order(s).

Share certificates will only become valid documents of title provided that the Global Offering has become unconditional in all respects and the right of termination described in "Underwriting — Underwriting arrangements and expenses — Hong Kong Public Offering — Grounds for termination" has lapsed, which is expected to be at 8:00 a.m. on Wednesday, 15 July 2020. Investors who trade Shares prior to the receipt of share certificates or the share certificates becoming valid do so at their own risk.

### **Personal collection**

#### ***(i) If you apply using a WHITE Application Form***

If you apply for 1,000,000 or more Hong Kong Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or share certificate(s) from 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, 14 July 2020 or such other date as notified by us in the newspapers.

If you are an individual who is eligible for personal collection, you must not 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 Branch Share Registrar.

If you do not collect your refund cheque(s) and/or share certificate(s) personally within the time specified for collection, they will be dispatched 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 Tuesday, 14 July 2020, by ordinary post and at your own risk.

#### ***(ii) If you apply using a YELLOW Application Form***

If you apply for 1,000,000 Hong Kong Offer Shares or more, please follow the same instructions as described above for collection of your refund cheque(s). If you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on or before Tuesday, 14 July 2020, by ordinary post and at your own risk.

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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, 14 July 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 Offer Shares credited to your designated CCASS Participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allotted to you with that CCASS Participant.

- *If you are applying as a CCASS Investor Participant*

Our 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 "Publication of results" above. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, 14 July 2020 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

### *(iii) If you apply through the HK eIPO White Form service*

If you apply for 1,000,000 Hong Kong Offer Shares or more and your application is wholly or partially successful, you may collect your share certificate(s) from the Hong Kong Branch Share Registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Tuesday, 14 July 2020, or such other date as notified by our Company in the newspapers as the date of dispatch/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, 14 July 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 dispatched 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 dispatched 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.

## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

### *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, 14 July 2020, or, on any other date determined by HKSCC or HKSCC Nominees.
- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our 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 "Publication of results" in this section on Tuesday, 14 July 2020. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, 14 July 2020 or such other date as determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give electronic application instructions on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- 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, 14 July 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 Offer Price of HK\$1.87 per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Tuesday, 14 July 2020.



## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

### 15. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangements as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

*The following is the text of report set out on pages I-1 to I-52, received from the Company's reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.*

# Deloitte.

# 德勤

## ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF SINO-ENTERTAINMENT TECHNOLOGY HOLDINGS LIMITED AND WAG WORLDSEC CORPORATE FINANCE LIMITED

### Introduction

We report on the historical financial information of Sino-Entertainment Technology Holdings Limited (the “**Company**”) and its subsidiaries (together, the “**Group**”) set out on pages I-3 to I-52, which comprises the consolidated statements of financial position of the Group as at 31 December 2017, 31 December 2018 and 31 December 2019, the statements of financial position of the Company as at 31 December 2018 and 31 December 2019 and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Group for each of the three years ended 31 December 2019 (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-3 to I-52 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 30 June 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 (the “**Stock Exchange**”).

### Directors' Responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in note 2 to the Historical Financial Information, and for such internal control as the directors of the Company determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

### Reporting Accountants' Responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 “Accountants' Reports on Historical Financial Information in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in note 2 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 of the Company, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Opinion**

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the Group's financial position as at 31 December 2017, 31 December 2018 and 31 December 2019, of the Company's financial position as at 31 December 2018 and 31 December 2019 and of the Group's financial performance and cash flows for the Track Record Period in accordance with the basis of preparation and presentation set out in note 2 to the Historical Financial Information.

### **Report on matters under the Rules Governing the Listing of Securities on the Stock Exchange and the Companies (Winding Up and Miscellaneous Provisions) Ordinance**

#### *Adjustments*

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-3 have been made.

#### *Dividends*

We refer to note 11 to the Historical Financial Information which states that no dividend was declared or paid by the entities now comprising the Group in respect of the Track Record Period or the Company since its incorporation.

**Deloitte Touche Tohmatsu**  
Certified Public Accountants  
Hong Kong

30 June 2020

**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 accountants' report.

The consolidated financial statements of the Group for the Track Record Period, on which the Historical Financial Information in this report is based, have been prepared in accordance with the accounting policies which conform with Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the HKICPA and were audited by us in accordance with Hong Kong Standards on Auditing (“**HKSAs**”) issued by the HKICPA (“**Underlying Financial Statements**”).

The Historical Financial Information is presented in Renminbi (“**RMB**”), which is also the functional currency of the Company, and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

**CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

	NOTES	Year ended 31 December		
		2017 RMB'000	2018 RMB'000	2019 RMB'000
Revenue	6	107,267	151,214	187,710
Cost of sales		<u>(67,267)</u>	<u>(94,199)</u>	<u>(111,897)</u>
Gross profit		40,000	57,015	75,813
Other income		56	872	801
Other gains and losses		–	44	596
Impairment loss recognised on trade receivables, net		(41)	(97)	(73)
Selling and marketing expenses		(1,666)	(143)	–
Administrative expenses		(2,706)	(4,147)	(5,972)
Interest on lease liabilities		–	–	(6)
Research and development expenses		(4,169)	(4,292)	(9,681)
Listing expenses		<u>–</u>	<u>(4,810)</u>	<u>(11,145)</u>
Profit before taxation	7	31,474	44,442	50,333
Tax (expense) credit	9	<u>(20)</u>	<u>(5,051)</u>	<u>167</u>
Profit and total comprehensive income for the year		<u>31,454</u>	<u>39,391</u>	<u>50,500</u>
Earnings per share				
Basic (RMB cents)	10	<u>9.71</u>	<u>12.16</u>	<u>15.59</u>

## STATEMENTS OF FINANCIAL POSITION

	NOTES	THE GROUP			THE COMPANY	
		At 31 December			At 31 December	
		2017	2018	2019	2018	2019
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Non-current assets</b>						
Property and equipment	12	120	281	224	–	–
Right-of-use assets	13	–	–	43	–	–
Intangible assets	14	–	6,414	13,825	–	–
Investment in a subsidiary	33	–	–	–	–*	–*
Deferred tax assets	15	–	–	167	–	–
		<u>120</u>	<u>6,695</u>	<u>14,259</u>	<u>–</u>	<u>–</u>
<b>Current assets</b>						
Trade and other receivables	16	34,222	75,210	86,831	2,408	4,682
Amount due from a director	17	–	7	–	–	–
Amounts due from shareholders	18	–	69	–	69	–
Bank balances and cash	19	27,277	32,323	48,969	–	182
		<u>61,499</u>	<u>107,609</u>	<u>135,800</u>	<u>2,477</u>	<u>4,864</u>
<b>Current liabilities</b>						
Trade and other payables	20	19,923	21,232	17,516	719	3,936
Lease liabilities	21	–	–	37	–	–
Contract liabilities	22	1,613	9,515	636	–	–
Amount due to a director	17	8	10	–	–	–
Amounts due to shareholders	18	–	–	33	–	33
Amounts due to subsidiaries	23	–	–	–	6,499	17,570
Taxation payable		850	5,061	2,851	–	–
Provision for warranty	24	199	–	–	–	–
		<u>22,593</u>	<u>35,818</u>	<u>21,073</u>	<u>7,218</u>	<u>21,539</u>
<b>Net current assets (liabilities)</b>		<u>38,906</u>	<u>71,791</u>	<u>114,727</u>	<u>(4,741)</u>	<u>(16,675)</u>
		<u>39,026</u>	<u>78,486</u>	<u>128,986</u>	<u>(4,741)</u>	<u>(16,675)</u>
<b>Capital and reserves</b>						
Paid-in capital/share capital	25	5,000	69	69	69	69
Reserves	26	34,026	78,417	128,917	(4,810)	(16,744)
		<u>39,026</u>	<u>78,486</u>	<u>128,986</u>	<u>(4,741)</u>	<u>(16,675)</u>

\* The amount is less than RMB1,000

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Paid-in capital/ share capital RMB'000	Other reserve RMB'000 (Note a)	Statutory surplus reserve RMB'000 (Note b)	Accumulated profits RMB'000	Total RMB'000
At 1 January 2017	5,000	–	257	2,315	7,572
Profit and total comprehensive income for the year	–	–	–	31,454	31,454
Transfer	–	–	3,142	(3,142)	–
At 31 December 2017	5,000	–	3,399	30,627	39,026
Profit and total comprehensive income for the year	–	–	–	39,391	39,391
Transfer	–	–	240	(240)	–
Effect of group reorganisation (note a)	(5,000)	5,000	–	–	–
Issue of shares	69	–	–	–	69
At 31 December 2018	69	5,000	3,639	69,778	78,486
Profit and total comprehensive income for the year	–	–	–	50,500	50,500
Transfer	–	–	500	(500)	–
At 31 December 2019	69	5,000	4,139	119,778	128,986

## Notes:

- (a) The amount represents the nominal amount of paid-in capital of Luocheng Mulao Autonomous County Dinglian Technology Company Limited (“**Dinglian Technology**”) which conducts the Group’s operations. Upon completion of the group reorganisation as detailed in note 2, the amount is transferred from paid-in capital to other reserve.
- (b) According to the relevant requirements in the articles of association of Dinglian Technology and the relevant PRC Laws (defined in note 2), it is required to transfer 10% of profit after taxation, which is limited to 50% of the paid-in capital, to statutory surplus reserve. The transfer must be made before the distribution of a dividend to equity owners. The statutory surplus reserve is non-distributable other than upon liquidation and can be used to make up the prior year losses, if any.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
<b>Operating activities</b>			
Profit before taxation	31,474	44,442	50,333
Adjustments for:			
Interest income from bank deposits	(21)	(56)	(67)
Investment income from other financial assets	(34)	(444)	(88)
Impairment loss recognised on trade receivables, net	41	97	73
Provision for warranty	199	–	–
Interest on lease liabilities	–	–	6
Depreciation of property and equipment	34	101	143
Depreciation of right-of-use assets	–	–	143
Amortisation of intangible assets	–	190	938
Operating cash flows before movements in working capital	31,693	44,330	51,481
Increase in trade and other receivables	(27,441)	(39,482)	(8,687)
(Increase) decrease in amount due from a director	–	(7)	7
Increase (decrease) in trade and other payables	16,134	(726)	(2,770)
Increase (decrease) in contract liabilities	1,613	7,902	(8,879)
Decrease in provision for warranty	–	(199)	–
Cash generated from operations	21,999	11,818	31,152
Hong Kong Profits Tax paid	–	(15)	–
PRC Enterprise Income Tax paid	(28)	(825)	(2,210)
<b>Net cash from operating activities</b>	<b>21,971</b>	<b>10,978</b>	<b>28,942</b>
<b>Investing activities</b>			
Purchase of other financial assets	–	(28,500)	(19,500)
Purchases of property and equipment	(142)	(262)	(86)
Proceeds from redemption of other financial assets	3,834	28,944	19,588
Purchases of intangible assets	–	(4,764)	(10,189)
Interest received from bank deposits	21	56	67
<b>Net cash from (used in) investing activities</b>	<b>3,713</b>	<b>(4,526)</b>	<b>(10,120)</b>



	Year ended 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
<b>Financing activities</b>			
Advance from a director	647	55	–
Advance from shareholders	–	–	33
Consideration received for issue of shares	–	–	69
Repayment to directors	(725)	(53)	(10)
Payment of lease liabilities	–	–	(149)
Interest paid on lease liabilities	–	–	(6)
Issue costs paid	–	(1,424)	(2,183)
	<u>–</u>	<u>(1,424)</u>	<u>(2,183)</u>
<b>Net cash used in financing activities</b>	<u>(78)</u>	<u>(1,422)</u>	<u>(2,246)</u>
Net increase in cash and cash equivalents	25,606	5,030	16,576
Cash and cash equivalents at beginning of the year	1,772	27,277	32,323
Effect of foreign exchange rate changes	(101)	16	70
	<u>(101)</u>	<u>16</u>	<u>70</u>
Cash and cash equivalents at end of the year, represented by bank balances and cash	<u>27,277</u>	<u>32,323</u>	<u>48,969</u>

## NOTES TO THE HISTORICAL FINANCIAL INFORMATION

## 1. GENERAL

The Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Companies Law, Chapter 22 of the Cayman Islands on 18 April 2018 by eleven PRC citizens (the “**Registered Shareholders**”) through setting up wholly-owned companies incorporated in the British Virgin Islands (“**BVI**”). The addresses of the registered office and the principal place of business of the Company are set out in the section headed “Corporate Information” of the Prospectus.

The Company is an investment holding company. The Group is principally engaged in publishing and development of mobile games (the “**Listing Business**”) in the People’s Republic of China (the “**PRC**”). The operations of the Group are conducted by Dinglian Technology and its subsidiaries (the “**Operating Entities**”) while Dinglian Technology is legally owned by the Registered Shareholders.

No statutory financial statements of the Company have been prepared since its date of incorporation as it is incorporated in a jurisdiction where there are no statutory audit requirements.

## 2. GROUP REORGANISATION AND BASIS OF PREPARATION AND PRESENTATION OF HISTORICAL FINANCIAL INFORMATION

The Historical Financial Information has been prepared based on the accounting policies set out in note 4 which conform with HKFRSs issued by the HKICPA.

In preparation for the listing of the Company’s shares on the Stock Exchange (the “**Listing**”), the companies comprising the Group underwent the group reorganisation (“**Group Reorganisation**”) as described below.

- (i) On 18 April 2018, the Company was incorporated in Cayman Islands as a limited liability company. As at the date of incorporation, the authorised share capital was US\$50,000 divided into 500,000,000 shares having a par value of US\$0.0001 each, with 100,000,000 shares allotted and issued as fully-paid at par to the initial subscribers, among which 1 share was allotted and issued to McGrath Tonner Corporate Services Limited, which is subsequently transferred to Sun JH Holding Ltd. (“**Sun JH**”), 49,999,999 shares were allotted and issued to Sun JH, 1,000,000 shares were allotted and issued to Leap HJ Holding Ltd. (“**Leap HJ**”), 10,000,000 shares were allotted and issued to Hearty Xi Holding Ltd. (“**Hearty Xi**”), 6,000,000 shares were allotted and issued to LYZ Tech Holding Ltd. (“**LYZ Tech**”), 6,000,000 shares were allotted and issued to Super SY Holding Ltd. (“**Super SY**”), 6,000,000 shares were allotted and issued to Wonder H Holdings Ltd. (“**Wonder H**”), 6,000,000 shares were allotted and issued to Laud HJ Holding Ltd. (“**Laud HJ**”), 5,000,000 shares were allotted and issued to LHTH Tech Holding Ltd. (“**LHTH Tech**”), 5,000,000 shares were allotted and issued to Optimism YJ Holding Ltd. (“**Optimism YJ**”), 3,000,000 shares were allotted and issued to Good CH Holding Ltd. (“**Good CH**”), and 2,000,000 shares were allotted and issued to Knowledge ZH Holding Ltd. (“**Knowledge ZH**”).

Sun JH, Leap HJ, Hearty Xi, LYZ Tech, Super SY, Wonder H, Laud HJ, LHTH Tech, Optimism YJ, Good CH and Knowledge ZH have been incorporated in the BVI and owned as to 100% by Mr. Sui Jiaheng, Mr. Li Haijun, Mr. Huang Xin, Mr. Liang Yuezhong, Ms. Shen Shiyin, Mr. Wu Lihui, Mr. Liang Hanjun, Mr. Liang Hong, Mr. Ou Yajie, Mr. Gao Changhai and Mr. Ke Zhenhua (being the Registered Shareholders), respectively, since their respective incorporation on 11 April 2018 (except for Laud HJ and Knowledge ZH, which were incorporated on 16 April 2018).

- (ii) On 30 April 2018, Sino-Entertainment (HK) International Holdings Limited (“**Sino-Entertainment (HK)**”) was incorporated in Hong Kong as a limited liability company and wholly-owned by the Company. On 30 April 2018, Sino-Entertainment Technology (HK) Holdings Limited (“**Sino-Entertainment Technology (HK)**”) was incorporated in Hong Kong as a limited liability company and wholly-own by the Company.
- (iii) On 20 September 2018, Khorgos Entertainment Information Technology Company Limited (formerly known as Huocheng Entertainment Information Technology Company Limited) (“**Khorgos Entertainment**”) was established in the PRC in the form of a wholly foreign-owned enterprise (“**WFOE**”) and wholly-owned by Sino-Entertainment (HK).
- (iv) On 7 November 2018, Khorgos Entertainment, Dinglian Technology and the Registered Shareholders entered into a series of contractual agreements (collectively, the “**Contractual Arrangements**”), which enables Khorgos Entertainment to obtain control over the financial and operational policies of the Operating Entities and become entitled to economic benefits generated by the Operating Entities. Accordingly, the Operating Entities are accounted for as subsidiaries of Khorgos Entertainment. Details of the Contractual Arrangements are set out below.

- (v) On 17 April 2019, an equity transfer agreement was entered into by Dinglian Technology and Sino-Entertainment (HK), pursuant to which Dinglian Technology agreed to transfer the entire equity interest of Luocheng Dinglian (International) Limited (“**Dinglian (International)**”), which is engaged in Listing Business without restrictions imposed by the relevant laws and regulatory regime of the PRC (the “**PRC Laws**”), to Sino-Entertainment (HK) at a consideration of HK\$14,000,000.

#### Contractual Arrangements

Due to the restrictions imposed by the PRC Laws on foreign ownership of companies engaged in the Listing Business carried out by the Group, the Group conducts a substantial portion of the Listing Business through the Operating Entities. On 7 November 2018, Khorgos Entertainment entered into the Contractual Arrangements with Dinglian Technology and the Registered Shareholders, which enable Khorgos Entertainment and the Group to:

- exercise effective control over the Operating Entities, expose, or has rights, to variable returns from its involvement with the Operating Entities and has ability to affect those returns through its power over the Operating Entities;
- exercise equity holders' controlling voting rights of the Operating Entities;
- receive substantially all of the economic interest returns generated by the Operating Entities in consideration for the business support, technical and consulting services provided by Khorgos Entertainment;
- obtain an irrevocable and exclusive right to purchase all or part of equity interests in the Operating Entities from the Registered Shareholders at a nominal consideration unless the relevant government authorities request that another amount be used as the purchase consideration permitted under the PRC Laws. Khorgos Entertainment may exercise such options at any time until it has acquired all equity interests and/or all assets of the Operating Entities. In addition, the Operating Entities are not allowed to sell, transfer, or dispose any assets, or make any distributions to their equity holders without prior consent of Khorgos Entertainment; and
- obtain a pledge over the entire equity interest of the Operating Entities from their equity holders as collateral security, to secure performance of the Operating Entities obligations under the Contractual Arrangements.

The Group does not have any equity interest in the Operating Entities. However, as a result of the Contractual Arrangements, the Group has rights to variable returns from its involvement with the Operating Entities and has the ability to affect those returns through its power over the Operating Entities and is considered to have control over the Operating Entities. Consequently, the Company regards the Operating Entities as indirect subsidiaries.

The Company became the holding company of the companies now comprising the Group on 7 November 2018. As the Group Reorganisation only involved inserting new holding companies and has not resulted in any change of economic substance, the consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows of the Group for the Track Record Period have been prepared as if the current group structure had been in existence throughout the Track Record Period, or since the respective dates of incorporation/establishment of the relevant companies now comprising the Group where this is a shorter period. The consolidated statement of financial position of the Group as at 31 December 2017 has been prepared to present the assets and liabilities of the companies now comprising the Group as if the current group structure were in existence at that date.

The following financial statements balances and amounts of the Operating Entities (excluding Dinglian (International) for which the equity interest has been transferred to Sino-Entertainment (HK) on 17 April 2019) were included in the Historical Financial Information:

	Year ended 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Revenue	105,416	151,214	187,710
Profit before taxation	31,417	49,415	58,542
	<u>          </u>	<u>          </u>	<u>          </u>
	At 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Non-current assets	120	6,695	14,187
Current assets	61,434	106,496	121,617
Current liabilities	22,565	35,099	16,401
	<u>          </u>	<u>          </u>	<u>          </u>

**3. APPLICATION OF HKFRSs**

For the purpose of preparing and presenting the Historical Financial Information for the Track Record Period, the Group has consistently adopted the accounting policies, which conform with HKFRSs, Hong Kong Accounting Standards (“HKASs”), amendments and related interpretation issued by the HKICPA that are effective for the Group’s financial year beginning on 1 January 2019 throughout the Track Record Period, except that the Group adopted HKFRS 9 “Financial Instruments” since 1 January 2018 and applied HKAS 39 “Financial Instruments: Recognition and Measurement” for the year ended 31 December 2017, adopted HKFRS 16 “Leases” since 1 January 2019 and applied HKAS 17 “Leases” for the two years ended 31 December 2018. Specifically, the Group has adopted HKFRS 15 “Revenue from Contracts with Customers” on a consistent basis throughout the Track Record Period. The accounting policies for financial instruments under HKFRS 9 and HKAS 39, leases under HKFRS 16 and HKAS 17, revenue recognition under HKFRS 15 are set out in note 4 below.

**HKFRS 9 and the related amendments**

HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities; 2) expected credit losses (“ECL”) for financial assets and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening accumulated profits and other components of equity without restating comparative information.

*Classification and measurement of financial assets*

The directors of the Company reviewed and assessed the Group’s financial assets and financial liabilities as at 1 January 2018 based on the facts and circumstances that existed at that date. All financial assets and financial liabilities continue to be measured on the same bases as were previously measured under HKAS 39.

*Impairment of financial assets*

As at 1 January 2018, the directors of the Company reviewed and assessed the Group’s existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9. There is no change to the Group’s accumulated profits as at 1 January 2018 as there is no significant difference in impairment allowance by using ECL model under HKFRS 9 as compared with that by using incurred loss model under HKAS 39 as at that date. The accounting policies and details of assessments are set out in notes 4 and 29.

**HKFRS 16**

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 “Determining whether an Arrangement contains a Lease” and not apply this standard to contracts that were not previously identified as containing a lease before 1 January 2019. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application on 1 January 2019.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease. The accounting policies are set out in note 4.

As a lessee, the Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. Any difference at the date of initial application is recognised in the opening accumulated profits and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts by electing not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application.

The Group applies the short-term lease recognition exemption to leases of office premises that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

On transition, the Group has recognised lease liabilities of HK\$186,000 and right-of-use assets of HK\$186,000 at 1 January 2019 upon application of HKFRS 16. When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rate applied is 5.39%.

The following is the reconciliation of operating lease commitment as at 31 December 2018 to the lease liabilities as at 1 January 2019:

	<i>RMB'000</i>
Operating lease commitment as at 31 December 2018 as disclosed in the Historical Financial Information	668
Discounting effect using the incremental borrowing rates at 1 January 2019	(6)
	<hr/>
Lease liabilities discounted at relevant incremental borrowing rates	662
Less: Recognition exemption for short-term leases	(476)
	<hr/>
Lease liabilities relating to operating leases recognised upon application of HKFRS 16 at 1 January 2019 classified under non-current assets	<u>186</u>

In addition, as at 1 January 2019, the Group had refundable rental deposits paid of RMB43,000. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets and the carrying amounts of such deposits should be adjusted to amortised cost and such adjustments should be considered as additional lease payments. However, no refundable rental deposits paid has been adjusted to the carrying amount of right-of-use assets as the amount is insignificant.

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective during the Track Record Period:

HKFRS 17	Insurance Contracts <sup>2</sup>
Amendment to HKFRS 16	Covid-19-Related Rent Concessions <sup>5</sup>
Amendments to HKFRS 3	Definition of a Business <sup>3</sup>
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform <sup>4</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>1</sup>
Amendments to HKAS 1 and HKAS 8	Definition of Material <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after a date to be determined.

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2021.

<sup>3</sup> Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2020.

<sup>5</sup> Effective for annual periods beginning on or after 1 June 2020.

In addition to the above new and amendments to HKFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, the “Amendments to References to the Conceptual Framework in HKFRS Standards”, will be effective for annual periods beginning on or after 1 January 2020.

#### **Amendments to HKAS 1 and HKAS 8 “Definition of Material”**

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgments. In particular, the amendments:

- include the concept of “obscuring” material information in which the effect is similar to omitting or misstating the information;
- replace threshold for materiality influencing users from “could influence” to “could reasonably be expected to influence”; and
- include the use of the phrase “primary users” rather than simply referring to “users” which was considered too broad when deciding what information to disclose in the financial statements.

The amendments also align the definition across all HKFRSs and will be mandatorily effective for the Group's annual period beginning on 1 January 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the Historical Financial Information.

Except disclosed above, the directors of the Company anticipate that the application of other new and amendments to HKFRSs would have no material impact on the consolidated financial statements of the Group in the foreseeable future.

#### 4. SIGNIFICANT ACCOUNTING POLICIES

The Historical Financial Information has been prepared on the historical cost basis and in accordance with the accounting policies which conform with HKFRSs issued by the HKICPA. In addition, the Historical Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the Historical Financial Information is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 "Share-based Payment", leasing transactions that are accounted for in accordance with HKFRS 16 (since 1 January 2019) or HKAS 17 (before application of HKFRS 16), and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 "Inventories" or value in use in HKAS 36 "Impairment of Assets".

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

##### **Basis of consolidation**

The Historical Financial Information incorporates the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specially, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statements of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets, liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

#### **Investment in a subsidiary**

Investment in a subsidiary included in the Company's statement of financial position is stated at cost less any identified impairment loss.

#### **Revenue recognition**

Revenue is recognised to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. Specifically, the Group uses a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

Control of the asset or services may be transferred over time or at a point in time. Control of the asset or services is transferred over time if:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

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

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents 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 recognises revenue from the following sources: (i) Publishing of third party games; (ii) development and sales of customised software and games; (iii) publishing of self-developed games with other publishing service providers; and (iv) sales of computer equipment and hardware.

(i) *Publishing of third party games*

The Group is a co-publisher of mobile games developed by third party game developers, and earns game publishing service revenue by publishing them to the game players through the third party platforms and the Group's self-operated platform. The games are operated under a free-to-play model whereby game players can play the games free of charge and are charged for the purchase of game tokens or other virtual items via payment channels, such as the various mobile carriers and third party internet payment systems.

(a) *Publishing of third party games via third party platforms*

The Group is engaged by the game publishers to provide publishing related services, e.g. marketing, promotion, navigating the game players to register and recharge in the game, etc. Proceeds from game tokens or other virtual items are collected by the game developers or game publishers themselves who have the primary responsibility for the mobile game operation. The Group views the game publishers as its customers and generally charges the game publishers for the publishing related services on a cost-per-click, cost-per-action or cost-per-sales basis, pursuant to which the Group bills the game publishers based on the number of clicks, on actions including downloading, installing, registration, recharging, etc. that game players complete or revenue tracked from the game players. In order to provide such publishing related services to the game publishers, the Group engages other major online platforms to navigate the game players.

As the Group is solely responsible for identifying, contracting with and maintaining the relationship of the other major online platforms, the service fees charged by the other online platforms are included in cost of sales.

Revenue is recognised over time when the customer simultaneously receives and consumes the benefits of the Group's performance over time.

The contracts with customers are with variable consideration and the duration is within one year.

The service fees charged by other platforms are included in cost of sales. Service fees per sales based on pre-agreed percentage of the revenue tracked, service charges of payment channels and service fees per time, action, click, etc., are included in cost of sales when incurred.

(b) *Publishing of third party games via the Group's self-operated platform*

The Group has also entered into revenue sharing agreements with the game publishers. Under these agreements, the game developers or game publishers have the primary responsibilities for the hosting and maintenance of the game servers and providing the game content to the game players and the game developers or game publishers have the right to determine the pricing of in-game virtual items and the specification, modification or any update of the game themselves or as proposed by the Group. The Group's responsibilities to the game publishers are publishing, providing payment solution, market promotion service and customer service and maintaining the access portal network. The game developers, game publishers and the Group have responsibilities to ensure the game players can continue to gain access to the mobile game to get the game experience and benefit after the sale of the virtual items. That is, the Group has the implied obligation to provide on-going services to the game players, to maintain the access portal network for certain period of time for the game players to access the game. Therefore, the Group's service obligations as a co-publisher to the game publishers are also directly linked to each user's engagement.

Proceeds from selling game tokens or other virtual items are collected via the Group's self-operated platform, shared between the Group and game publishers with the amount payable to game publishers generally calculated based on agreements. Accordingly, the Group records the game publishing service revenue from in-game payments for these games, net of amounts shared by game publishers and recognises revenue over the estimated average playing period of paying player ("**Player Relationship Period**").

The Group estimates the Player Relationship Period on a game-by-game basis and reassesses such period semi-annually. Revenue from publishing of third party games via the Group's self-operated platform is recognised ratably over the Player Relationship Period for a specific game. If there is insufficient data to determine the Player Relationship Period, such as in the case of a newly launched game, the Group estimates the Player Relationship Period based on other similar types of games until the new game has established its own patterns and history.



The contracts with customers are with variable consideration and the duration is mainly within one year.

The service fees per time, action, click, etc., are included in selling and marketing expenses when incurred as these service fees are mainly for promotion of self-operated platform instead of obtaining the proceeds from selling game tokens or other virtual items.

*(ii) Development and sales of customised software and games*

Revenue from sales of games and provision of customisation services is recognised at a point in time when the customer obtains the control of games and services and the Group has present right to payment and the collection of the consideration is probable.

The contracts with customers are with fixed consideration and the duration is within one year.

*(iii) Publishing of self-developed games with other publishing service providers*

The Group is also engaged in operating self-developed mobile games. The self-developed mobile games are published with other game publishing service providers under various game distribution arrangements. The Group has also entered into revenue sharing agreements with other game publishing service providers. Under these agreements, in-game fee is firstly collected by the game publishing service providers and then paid to the Group after deduction of predetermined service fees of the game publishing service providers. The Group has the primary responsibilities for the hosting and maintenance of the game servers and providing the game content to the game players and have the right to determine the pricing of in-game virtual items and the specification, modification or any update of the game themselves. The game publishing service providers' responsibilities to the Group are publishing, providing payment solution, market promotion service and customer service and maintaining the access portal network. Both the game publishing service providers and the Group have responsibilities to ensure the game players can continue to gain access to the mobile game to get the game experience and benefit after the sale of the virtual items. The revenue derived from publishing of self-developed games with other publishing service providers are recorded on a gross basis as the Group acts as a principal to fulfil primary obligation related to the game operation. The amounts withheld by the publishing channels and other game publishing service providers are recorded as cost of sales.

The Group has determined that it is obliged to provide on-going services to the game players. When the game players buy the game tokens, the Group records them as contract liabilities as the Group has not yet passed the control of service. The game players will use the game tokens to purchase consumable virtual items and durable virtual items.

For consumable virtual items, the Group passes the control of consumable virtual items to the game players when they are purchased. Therefore, the Group recognises revenue at a point in time when the consumable virtual items are purchased.

For durable virtual items, the game players enjoy and benefit during the Player Relationship Period after the game players purchase the durable virtual items. It meets the criteria of revenue recognition over time that the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs. Therefore, the revenue is recognised over the Player Relationship Period.

The Group also estimate the players' unexercised right (the "breakage") based on historical consumption pattern and revenue for the expected breakage amount is recognised when the likelihood of the player exercising the remaining rights becomes remote.

The contracts with customers are with variable consideration and the duration is within one year.

*(iv) Sales of computer equipment and hardware*

Revenue from sales of computer equipment and hardware directly to the customers is recognised at a point in time when control of the goods has transferred, being at the point the customer purchases the goods.

***Principal versus agent***

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent).

The Group is a principal if it controls the specified good or service before that good or service is transferred to a customer.

The Group is an agent if its performance obligation is to arrange for the provision of the specified good or service by another party. In this case, the Group does not control the specified good or service provided by another party before that

good or service is transferred to the customer. When the Group acts as an agent, it recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

***Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation***

***Output method***

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the services transferred to the customer to date relative to the remaining services promised under the contract, that best depict the Group's performance in transferring control of services.

***Variable consideration***

For contracts that contain variable consideration, the Group estimates the amount of consideration to which it will be entitled using either (a) the expected value method or (b) the most likely amount, depending on which method better predicts the amount of consideration to which the Group will be entitled.

The estimated amount of variable consideration is included in the transaction price only to the extent that it is highly probable that such an inclusion will not result in a significant revenue reversal in the future when the uncertainty associated with the variable consideration is subsequently resolved.

At the end of each reporting period, the Group updates the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period.

***Incremental costs of obtaining a contract***

Incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained.

The Group recognises such costs as an asset if it expects to recover these costs. The asset so recognised is subsequently amortised to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the assets relate.

The Group applies the practical expedient of expensing all incremental costs to obtain a contract if these costs would otherwise have been fully amortised to profit or loss within one year.

***Warranties***

If a customer has the option to purchase a warranty separately, the Group accounts for the warranty as a separate performance obligation and allocates a portion of the transaction price to that performance obligation.

If a customer does not have the option to purchase a warranty separately, the Group accounts for the warranty in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets" unless the warranty provides the customer with a service in addition to the assurance that the product complies with agreed-upon specifications (i.e. service-type warranties).

**Property and equipment**

Property and equipment are stated in the consolidated statements of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of assets less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

**Leasing**

***Accounting policy applicable before 1 January 2019***

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

*The Group as lessee*

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

*Accounting policy applicable after 1 January 2019**Definition of a lease*

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

*The Group as lessee*

The Group assesses whether a contract is or contains a lease, at inception of a contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

*Lease liabilities*

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the consolidated statements of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

*Right-of-use assets*

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement date and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The right-of-use assets are presented as a separate line in the consolidated statements of financial position.

The Group applies HKAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in accounting policy on impairment of tangible assets.

As a practical expedient, HKFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Group has not used this practical expedient.

*Refundable rental deposits*

Refundable rental deposits paid are accounted under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

**Intangible assets**

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and accumulated impairment losses, if any. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

**Research and development expenditure**

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Costs incurred on development projects are capitalised as intangible assets when recognition criteria are fulfilled. These criteria include: (1) it is technically feasible to complete the game product so that it will be available for use; (2) management intends to complete the game product and use or sell it; (3) there is an ability to use or sell the game product; (4) it can be demonstrated how the game product will generate probable future economic benefits; (5) adequate technical, financial and other resources to complete the development and to use or sell the game product are available; and (6) the expenditure attributable to the game product during its development can be reliably measured. Other development expenditures that do not meet those criteria are recognised as expenses as incurred. During the Track Record Period, there were no development costs meeting these criteria and capitalised as intangible assets.

**Impairment loss of tangible assets and intangible assets**

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, (if any).

The recoverable amount of tangible and intangible asset is estimated individually. Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as immediately in profit or loss.

### **Financial instruments**

#### *Initial recognition under HKAS 39 and HKFRS 9*

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets at fair value through profit or loss (“FVTPL”)) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

#### *Financial assets (accounting policy applicable before 1 January 2018)*

The Group’s financial assets are classified into financial assets at FVTPL and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

#### *Effective interest method*

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

#### *Financial assets at FVTPL*

Financial assets are classified as at FVTPL when the financial asset is held for trading.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets and is included in the “other income” line item in the consolidated statements of profit or loss and other comprehensive income. Fair value is determined in the manner described in note 29.

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade receivables and bank balances and cash) are carried at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

#### *Impairment of financial assets*

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as trade receivables, assets are assessed on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

***Financial assets (accounting policy applicable after 1 January 2018)***

*Classification and measurement of financial assets*

Trade receivables arising from contracts with customers are initially measured in accordance with HKFRS 15.

All recognised financial assets that are within the scope of HKFRS 9 are subsequently measured at amortised cost or fair value.

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

Financial assets at FVTPL

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "other income" line item.

*Impairment of financial assets*

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade and other receivables, amount due from a director, amounts due from shareholders and bank balances). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables. The ECL on these assets are assessed individually.

For all other financial assets, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable.

- when there is a breach of financial covenants by the counterparty; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries made are recognised in profit or loss.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account.

***Financial liabilities and equity instruments under HKAS 39 and HKFRS 9***

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

*Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of a group entity after deducting all of its liabilities. Equity instruments issued by the group entities are recognised at the proceeds received, net of direct issue costs.



*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

*Financial liabilities*

The Group's financial liabilities (including trade and other payables, amount due to a director, amounts due to shareholders and amounts due to subsidiaries) are subsequently measured at amortised cost, using the effective interest method.

*Derecognition*

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

**Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before taxation because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Historical Financial Information and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not be reversed in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of each reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of each reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 "Income Taxes" requirements to the leasing transaction as a whole. Temporary differences relating to right-of-use assets and lease liabilities are assessed on a net basis. Excess of depreciation on right-of-use assets over the lease payments for the principal portion of lease liabilities resulting in net deductible temporary differences.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax are recognised in profit or loss.

In assessing any uncertainty over income tax treatments, the Group considers whether it is probable that the relevant tax authority will accept the uncertain tax treatment used, or proposed to be used by individual group entities in their income tax filings. If it is probable, the current and deferred taxes are determined consistently with the tax treatment in the income tax filings. If it is not probable that the relevant taxation authority will accept an uncertain tax treatment, the effect of each uncertainty is reflected by using either the most likely amount or the expected value.

#### **Foreign currencies**

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

#### **Retirement benefit costs**

Payments to state-managed retirement benefit scheme, which is a defined contribution scheme, are recognised as an expense when employees have rendered service entitling them to the contributions.

#### **Short-term employee benefits**

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

#### **Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of each reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Provision for the expected cost of warranty obligations under relevant sale contract is recognised at the date of sale of the relevant products, at the directors' best estimate of the expenditures required to settle the Group's obligations.

#### **Government grants**

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

**5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

In the application of the Group's accounting policies, which are described in note 4, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

**Critical judgements in applying accounting policies**

The followings are the critical judgements, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the Historical Financial Information.

***Contractual arrangements***

The Group conducts a substantial portion of the Listing Business in the PRC through the Operating Entities due to restrictions imposed by the PRC Laws on foreign ownership of companies engaged in the Listing Business carried out by the Group. The Group does not have any equity interest in the Operating Entities. The directors of the Company assessed whether or not the Group has control over the Operating Entities based on whether the Group has rights to variable returns from its involvement with the Operating Entities and has the ability to affect those returns through its power over the Operating Entities. After assessment, the directors of the Company concluded that the Group has control over the Operating Entities as a result of the Contractual Arrangements and other measures and accordingly, the Group has consolidated the financial information of the Operating Entities during the Track Record Period.

Nevertheless, the Contractual Arrangements and other measures may not be as effective as direct legal ownership in providing the Group with direct control over the Operating Entities and uncertainties presented by the legal system could impede the Group's beneficiary rights of the results, assets and liabilities of the Operating Entities. The directors of the Company, based on the advice of its legal counsel, consider that the Contractual Arrangements among Khorgos Entertainment, Dinglian Technology and the Registered Shareholders are in compliance with the relevant PRC Laws and are legally enforceable.

***Revenue recognition — principal versus agent***

The Group acts as a co-publisher of mobile games developed by third parties and earns game publishing service revenue by publishing them to the game players through the Group's self-operated platform.

The determination of whether to record the revenue using gross or net basis is based on an assessment of various factors, including but not limited to whether the Group (i) is the primary obligor to the game publishers and game players in the arrangement; (ii) changes the product or performs part of the services; (iii) has latitude in establishing the selling price of virtual items; and (iv) has involvement in the determination of product and service specifications.

The management of the Group considers the Group is acting as agent for publishing of third party games through the Group's self-operated platform after taking into account the factors stated above.

**Key sources of estimation uncertainty**

The following is the key assumption concerning the future, and other key source of estimation uncertainty at the end of each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

***Estimates of the Player Relationship Period in the Group's publishing of third party games and publishing of self-developed games with other publishing service providers***

The Group's revenue from publishing of third party games via the Group's self-operated platform and durable virtual items in respect of publishing of self-developed games with other publishing service providers are recognised ratably over the Player Relationship Period. The determination of Player Relationship Period of each game is 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 prospectively as a change in accounting estimate.

## 6. REVENUE AND SEGMENT INFORMATION

## Revenue

Revenue represents the amount of consideration to which the Group expects to be entitled in exchange for publishing of third party games, development and sales of customised software and games, publishing of self-developed games with other publishing service providers and other business (representing sales of computer equipment and hardware) by the Group to external customers.

## For the year ended 31 December 2017

	Publishing of third party games <i>RMB'000</i>	Development and sales of customised software and games <i>RMB'000</i>	Publishing of self- developed games <i>RMB'000</i>	Other business <i>RMB'000</i>	Total <i>RMB'000</i>
Time of revenue recognition					
At a point in time	–	8,505	–	4	8,509
Over time	98,758	–	–	–	98,758
	<u>98,758</u>	<u>8,505</u>	<u>–</u>	<u>4</u>	<u>107,267</u>
Segment revenue and revenue from contracts with customers	<u>98,758</u>	<u>8,505</u>	<u>–</u>	<u>4</u>	<u>107,267</u>

## For the year ended 31 December 2018

	Publishing of third party games <i>RMB'000</i>	Development and sales of customised software and games <i>RMB'000</i>	Publishing of self- developed games <i>RMB'000</i>	Other business <i>RMB'000</i>	Total <i>RMB'000</i>
Time of revenue recognition					
At a point in time	–	11,062	6,413	–	17,475
Over time	107,248	–	26,491	–	133,739
	<u>107,248</u>	<u>11,062</u>	<u>32,904</u>	<u>–</u>	<u>151,214</u>
Segment revenue and revenue from contracts with customers	<u>107,248</u>	<u>11,062</u>	<u>32,904</u>	<u>–</u>	<u>151,214</u>

## For the year ended 31 December 2019

	Publishing of third party games <i>RMB'000</i>	Development and sales of customised software and games <i>RMB'000</i>	Publishing of self- developed games <i>RMB'000</i>	Other business <i>RMB'000</i>	Total <i>RMB'000</i>
Time of revenue recognition					
At a point in time	–	–	10,373	–	10,373
Over time	142,174	–	35,163	–	177,337
	<u>142,174</u>	<u>–</u>	<u>45,536</u>	<u>–</u>	<u>187,710</u>
Segment revenue and revenue from contracts with customers	<u>142,174</u>	<u>–</u>	<u>45,536</u>	<u>–</u>	<u>187,710</u>

	Year ended 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
The contracts with customers are with:			
Variable consideration	98,758	140,152	187,710
Fixed price	8,509	11,062	–
	<u>107,267</u>	<u>151,214</u>	<u>187,710</u>

All contracts with customers are for period of one year or less. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

#### Segment information

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by Mr. Sui Jiaheng, an executive director of the Company, and Mr. Li Tao, a chief executive officer of the Company, being the chief operating decision makers (the “CODM”), in order for the CODM to allocate resources and to assess performance. No operating segments identified by the CODM have been aggregated in arriving at the reportable segments of the Group.

The CODM regularly reviews revenue analysis by services and products to assess performance and allocation of resources. Other than revenue analysis, no operating results and other discrete financial information is available for the assessment of performance by respective segments. The CODM reviews the financial results of the Group as a whole to make decision. Accordingly, no other segment analysis is presented.

The Group's non-current assets are all located in the PRC by physical location of assets and substantially all of the Group's revenue are derived from the PRC. Therefore, no geographical segments are presented.

#### Information about major customers

Revenue attributed from customers that accounted for 10% or more of the Group's revenue during the Track Record Period is as follows:

	Year ended 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Customer A <sup>(1)</sup>	17,285	N/A*	N/A*
Customer B <sup>(1)</sup>	13,022	Nil	Nil
Customer C <sup>(1)</sup>	10,765	N/A*	Nil
Customer D <sup>(1)</sup>	Nil	28,249	N/A*
Customer E <sup>(1)</sup>	Nil	19,053	N/A*
Customer F <sup>(1)</sup>	Nil	Nil	34,444
Customer G <sup>(1)</sup>	Nil	N/A*	31,251
Customer H <sup>(1)</sup>	Nil	Nil	19,005

\* Less than 10% of the Group's total revenue

#### Notes:

- Revenue from publishing of third party games.
- The Group has a large number of game players for revenue from publishing of self-developed games with other publishing service providers. No revenue from any individual game player exceeded 10% or more of the Group's revenue during the Track Record Period.

## 7. PROFIT BEFORE TAXATION

	Year ended 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Profit before taxation has been arrived at after charging:			
Directors' and chief executive's emoluments (note 8)	545	649	878
Other staff costs	4,400	7,957	9,356
Retirement benefit scheme contributions for other staff	618	1,167	1,231
	<u>5,563</u>	<u>9,773</u>	<u>11,465</u>
Total staff costs			
Auditor's remuneration	11	45	30
Cost of inventories recognised as expense	4	–	–
Depreciation of property and equipment	34	101	143
Depreciation of right-of-use assets	–	–	143
Amortisation of intangible assets	–	190	938
Operating lease rentals in respect of rented premises	103	321	–
Short-term lease payments	–	–	137
Research and development expenses (note)	4,169	4,292	9,681
and after crediting:			
Interest income from bank deposits	21	56	67
Investment income from other financial assets	34	444	88
Government grants recognised in respect of research expenses	–	230	537
	<u>–</u>	<u>230</u>	<u>537</u>

*Note:* Research and development expenses consist of staff costs for the Group's research and development personnel of RMB3,214,000, RMB4,098,000 and RMB5,530,000, depreciation of property and equipment amounting to RMB14,000, RMB26,000 and RMB41,000 and amortisation of intangible assets of nil, nil and HK\$198,000 for the years ended 31 December 2017 and 31 December 2018 and 31 December 2019, respectively which are also included in "Total staff costs", and "Depreciation of property and equipment" respectively, as above.

## 8. DIRECTORS' AND CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

## (a) Directors' and executive's emoluments

Mr. Sui Jiaheng was appointed as a director of the Company on 18 April 2018 and re-designated as an executive director of the Company on 3 April 2019, Mr. Li Haijun and Mr. He Shaoning were appointed as executive directors of the Company on 3 April 2019, and Mr. Li Tao was appointed as chief executive officer of the Company on 3 April 2019. The emoluments paid or payable to the directors and chief executive officer of the Company (including emoluments for services as employees/directors/chief executive officer of the group entities prior to becoming directors of the Company) by the entities comprising the Group during the Track Record Period are as follows:

## For the year ended 31 December 2017

	Fees <i>RMB'000</i>	Salaries and other benefits <i>RMB'000</i>	Performance related incentive payments <i>RMB'000</i>	Retirement benefit scheme contributions <i>RMB'000</i>	Total <i>RMB'000</i>
<b>Executive directors</b>					
Mr. Sui Jiaheng	–	43	–	7	50
Mr. Li Haijun	–	103	–	17	120
Mr. He Shaoning	–	38	–	7	45
<b>Chief executive officer</b>					
Mr. Li Tao	–	301	–	29	330
	–	485	–	60	545

## For the year ended 31 December 2018

	Fees <i>RMB'000</i>	Salaries and other benefits <i>RMB'000</i>	Performance related incentive payments <i>RMB'000</i>	Retirement benefit scheme contributions <i>RMB'000</i>	Total <i>RMB'000</i>
<b>Executive directors</b>					
Mr. Sui Jiaheng	–	43	–	7	50
Mr. Li Haijun	–	109	–	17	126
Mr. He Shaoning	–	54	–	9	63
<b>Chief executive officer</b>					
Mr. Li Tao	–	355	25	30	410
	–	561	25	63	649

## For the year ended 31 December 2019

	Fees <i>RMB'000</i>	Salaries and other benefits <i>RMB'000</i>	Performance related incentive payments <i>RMB'000</i>	Retirement benefit scheme contributions <i>RMB'000</i>	Total <i>RMB'000</i>
<b>Executive directors</b>					
Mr. Sui Jiaheng	–	245	–	29	274
Mr. Li Haijun	–	108	–	16	124
Mr. He Shaoning	–	54	–	8	62
<b>Chief executive officer</b>					
Mr. Li Tao	–	387	–	31	418
<b>Non-executive director</b>					
Mr. Huang Zhigang	–	–	–	–	–
	–	794	–	84	878

The performance related incentive payments were determined with reference to the operating results and individual performance for the Track Record Period.

The executive directors' and the chief executive officer's emoluments shown above were for their services in connection with the management of affairs of the Company and the Group.

A non-executive director, Mr. Huang Zhigang, was appointed by the Company on 3 April 2019, and independent non-executive directors, namely Ms. Zhang Chunmei, Mr. Deng Chunhua and Ms. Chen Nan, were appointed by the Company on 23 April 2020.

**(b) Employees' emoluments**

Of the five individuals with the highest emoluments in the Group, one, one and one were directors of the Company and/or chief executive officer of the Company for the years ended 31 December 2017, 31 December 2018 and 31 December 2019, respectively whose emoluments are included in the disclosures above. The emoluments of the remaining four, four and four highest paid individuals for the years ended 31 December 2017, 31 December 2018 and 31 December 2019 are as follows:

	Year ended 31 December		
	2017 <i>RMB'000</i>	2018 <i>RMB'000</i>	2019 <i>RMB'000</i>
Salaries and other benefits	1,031	1,158	1,247
Performance related incentive payments	–	59	–
Retirement benefit scheme contributions	108	122	124
	1,139	1,339	1,371

The emoluments of the aforesaid employees are within the band from nil to HK\$1,000,000.

The performance related incentive payments are determined with reference to the operating results and individual performance during the Track Record Period.

During the Track Record Period, no emoluments were paid by the Group to the directors of the Company or the five highest paid individuals (including directors, chief executive officer and employees), as an inducement to join or upon joining the Group or as compensation for loss in office. None of the directors of the Company waived any emoluments during the Track Record Period.



## 9. TAX EXPENSE (CREDIT)

	Year ended 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Hong Kong Profits Tax:			
Current tax	20	–	–
Overprovision in prior years	–	(5)	–
	<u>20</u>	<u>(5)</u>	<u>–</u>
PRC Enterprise Income Tax (“EIT”):			
Current tax	–	5,061	–
Overprovision in prior years	–	(5)	–
	<u>–</u>	<u>5,056</u>	<u>–</u>
Deferred taxation ( <i>note 15</i> )	–	–	(167)
	<u>20</u>	<u>5,051</u>	<u>(167)</u>

For the years ended 31 December 2017, Hong Kong Profits Tax was calculated at a single flat rate of 16.5% of the estimated assessable profits.

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the “Bill”) which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. The profits of group entities in Hong Kong not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%. Accordingly, starting from the year ended 31 December 2018, the Hong Kong Profits Tax is calculated at 8.25% on the first HK\$2 million of the estimated assessable profits for the qualifying group entity and at 16.5% on the estimated assessable profits above HK\$2 million.

Under the Law of the PRC on EIT (the “EIT Law”) and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%.

Pursuant to the relevant regulations issued by the State Administration of Taxation, the Ministry of Finance, and/or other government authorities, software enterprises shall be exempted from EIT for two years from the first profit-making year and shall be taxed at half of the statutory tax rate from the third to the fifth year. Dinglian Technology entered into the first profit-making year in 2016, but it was not qualified as a software enterprise in 2016. Dinglian Technology obtained the certificate of software enterprise on 24 July 2017. Therefore, Dinglian Technology’s first qualified profit-making year was 2017 and the tax rates were 25%, 0%, 12.5%, 12.5%, 12.5% in the respective years from 2016 to 2020. During the year ended 31 December 2019, Dinglian Technology incurred a tax loss after taking into account of the Super Deduction (defined on I-29), accordingly no EIT is recognised.

Pursuant to Cai Shui [2011] No. 112 issued by State Administration of Taxation and the Ministry of Finance, from 1 January 2010 to 31 December 2020, a newly established enterprise, which complies with the “Announcement of the preferential enterprise income tax in respect of the two special Kashi and Khorgos economic development zones in Xinjiang Province”, is entitled to an EIT exemption for five years, commencing from the first operating revenue-making year. As Khorgos Dinglian Interactive Network Technology Company Limited (“**Khorgos Dinglian**”), established in 2017 with operating revenue generated in 2017, and Khorgos Entertainment, established in 2018 with operating revenue generated in 2019, both complied with the above policy, they are entitled to the exemption from EIT for the years from 2017 to 2020.

Pursuant to Cai Shui [2011] No. 58 issued by the Ministry of Finance, the General Administration of Customs and the State Administration of Taxation, National Development and Reform Commission Order No.15, Announcement of the State Administration of Taxation [2012] No. 12 and Announcement of the State Administration of Taxation [2015] No. 14, from 1 January 2011 to 31 December 2020, a newly established enterprise which complies with these policies is entitled to 15% preferential tax rate for the period from date of establishment to 31 December 2020. As Beihai Dinglian Technology Company Limited (“**Beihai Dinglian**”), a subsidiary of the Company established in 2017, complied with the above policies, it is entitled to 15% preferential EIT rate for the years from 2017 to 2019, and it is expected to enjoy such preferential EIT rate for the year 2020. Furthermore, pursuant to Cai Shui [2008] No.21, Beihai Dinglian is entitled to an EIT exemption

attributable to the local government for the year ended 31 December 2018 and the entitlement of this tax benefit is subject to maintaining related supporting documents for inspection for 10 years by respective tax bureau in the PRC.

According to relevant laws and regulations promulgated by the State Tax Bureau of the PRC that was effective from 2008 onwards, enterprise engaging in research and development activities are entitled to claim 175% (for the years ended 31 December 2017, 2018 and 2019) of their research and development expenses so incurred as tax deductible expenses when determining their assessable profits for that year (“**Super Deduction**”). The Group has made its best estimate for the Super Deduction to be claimed for the Group’s entities in ascertaining their assessable profits for the Track Record Period.

The taxation for the Track Record Period can be reconciled to the profit before taxation per the consolidated statements of profit or loss and other comprehensive income as follows:

	Year ended 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Profit before taxation	31,474	44,442	50,333
Tax at PRC EIT rate at 25%	7,869	11,111	12,583
Tax effect of expenses not deductible for tax purposes	63	1,261	2,960
Tax effect of income not taxable for tax purposes	–	–	(116)
Additional tax deduction on intra-group equity transaction	–	–	(1,538)
Effect of tax exemption on concessionary rates granted to PRC subsidiaries	(7,121)	(6,597)	(11,963)
Effect of different tax rate of subsidiaries operating in other jurisdictions	(10)	–	–
Super Deduction for research and development expenses	(782)	(806)	(2,047)
Tax effect of deductible temporary differences not recognised	–	22	37
Tax effect of tax losses not recognised	1	80	8
Utilisation of deductible temporary difference previously not recognised	–	(10)	(22)
Utilisation of tax losses previously not recognised	–	–	(69)
Overprovision in prior years	–	(10)	–
Tax expense (credit) for the year	20	5,051	(167)

## 10. EARNINGS PER SHARE

The calculation of the basic earnings per share for the Track Record Period is based on the following data:

	Year ended 31 December		
	2017	2018	2019
Earnings			
Profit for the year attributable to owners of the Company for the purpose of basic earnings per share (RMB'000)	31,454	39,391	50,500
Number of shares			
Weighted average number of ordinary shares for the purpose of basic earnings per share	324,000,000	324,000,000	324,000,000

The weighted average number of ordinary shares for the purpose of calculating basic earnings per share has been determined on the assumption that the Company had been the holding company of the subsidiaries with shares issued and outstanding consistent with the basis of consolidation throughout the Track Record Period and the capitalisation issue as detailed in the section headed “History, Reorganisation and Corporate Structure” of the Prospectus had been effective on 1 January 2017.

No diluted earnings per share is presented as there were no potential ordinary shares in issue during the Track Record Period.

**11. DIVIDEND**

No dividend was declared or paid for the Track Record Period by the Company and the entities now comprising the Group, nor has any dividend proposed by the Company or its subsidiaries since the end of the Track Record Period.

**12. PROPERTY AND EQUIPMENT**

	<b>Office equipment</b> <i>RMB'000</i>	<b>Leasehold improvements</b> <i>RMB'000</i>	<b>Total</b> <i>RMB'000</i>
<b>THE GROUP</b>			
<b>COST</b>			
At 1 January 2017	16	–	16
Additions	142	–	142
At 31 December 2017	158	–	158
Additions	152	110	262
At 31 December 2018	310	110	420
Additions	86	–	86
At 31 December 2019	396	110	506
<b>DEPRECIATION</b>			
At 1 January 2017	4	–	4
Provided for the year	34	–	34
At 31 December 2017	38	–	38
Provided for the year	73	28	101
At 31 December 2018	111	28	139
Provided for the year	105	38	143
At 31 December 2019	216	66	282
<b>CARRYING VALUES</b>			
At 31 December 2017	120	–	120
At 31 December 2018	199	82	281
At 31 December 2019	180	44	224

The office equipment and leasehold improvements are depreciated on a straight-line basis over its estimated useful life and after taking into account their residual values at the rate of 33.33% per annum.

**13. RIGHT-OF-USE ASSETS**

The Group leases certain properties as office premises. Property leases are typically made for fixed periods of one to three years at fixed rentals without renewal option. Lease terms are negotiated on an individual basis and contain various different terms and conditions. The lease arrangements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

THE GROUP

The Group leased several buildings. The lease term ranges from 1 to 3 years throughout the Track Record Period.

	<b>Buildings</b> <i>RMB'000</i>
Net carrying amount at 31 December 2019	43

There is no addition to right-of-use assets during the year ended 31 December 2019 as there is no new lease entered into by the Group or modification of leases.

	<b>Year ended</b> <b>31 December</b> <b>2019</b> <i>RMB'000</i>
Amounts recognised in profit or loss:	
Depreciation of right-of-use assets	143
Interest expenses on lease liabilities	6

The total cash outflow for leases amounted to RMB292,000 for the year ended 31 December 2019.

## 14. INTANGIBLE ASSETS

	<b>Licenses</b> <i>RMB'000</i>
<u>THE GROUP</u>	
<u>COST</u>	
At 1 January 2017 and 31 December 2017	–
Additions	<u>6,604</u>
At 31 December 2018	6,604
Additions	<u>8,349</u>
At 31 December 2019	<u>14,953</u>
<u>AMORTISATION</u>	
At 1 January 2017 and 31 December 2017	–
Provided for the year	<u>190</u>
At 31 December 2018	190
Provided for the year	<u>938</u>
At 31 December 2019	<u>1,128</u>
<u>CARRYING VALUES</u>	
At 31 December 2017	<u>–</u>
At 31 December 2018	<u>6,414</u>
At 31 December 2019	<u>13,825</u>

Pursuant to the fiction and animation copyright agreements entered between the Group and the fiction and animation copyright owners, the Group pays loyalty fees to the fiction and animation copyright owners as the Group is entitled to develop, publish and operate mobile games based on the fiction and animation copyright. The Group recognises the loyalty fees as intangible assets. These intangible assets are initially recorded at cost and amortised on a straight-line basis over the license period of 10 years.

## 15. DEFERRED TAX ASSETS

	2017 RMB'000	2018 RMB'000	2019 RMB'000
Deferred tax assets	–	–	167

The following is the deferred tax asset recognised and its movements for the Track Record Period:

	ECL allowance RMB'000	Tax loss RMB'000	Total RMB'000
At 1 January 2017, 31 December 2017 and 31 December 2018	–	–	–
Credited to profit or loss (note 9)	2	165	167
At 31 December 2019	2	165	167

At 31 December 2017, 31 December 2018 and 31 December 2019, the Group has unused tax losses of RMB3,000, RMB323,000 and RMB1,407,000, respectively, available for offset against future profits. A deferred tax asset has been recognised in respect of nil, nil and RMB1,326,000 of such losses. No deferred tax asset has been recognised in respect of the remaining RMB3,000, RMB323,000 and RMB81,000 due to the unpredictability of future profit streams. The tax losses will expire within five years.

At 31 December 2017, 31 December 2018 and 31 December 2019, the Group has deductible temporary differences of RMB41,000, RMB88,000 and RMB161,000, respectively. A deferred tax asset has been recognised in respect of nil, nil and RMB2,000 of such deductible temporary differences. No deferred tax asset has been recognised in respect of the remaining deductible temporary differences mainly due to the insignificance of the balances.

## 16. TRADE AND OTHER RECEIVABLES

	At 31 December		
	2017 RMB'000	2018 RMB'000	2019 RMB'000
<u>THE GROUP</u>			
Trade receivables	32,253	56,735	49,163
Less: provision for impairment loss	(41)	(88)	(161)
	<u>32,212</u>	<u>56,647</u>	<u>49,002</u>
Down payments to game publishers	150	13,996	27,379
Advances to suppliers	1,345	840	5,586
Deposits and prepayments	173	177	158
Value-added tax recoverable	342	1,142	24
Prepaid listing expenses	–	804	71
Deferred issue costs	–	1,604	4,611
Total trade and other receivables	<u>34,222</u>	<u>75,210</u>	<u>86,831</u>
<u>THE COMPANY</u>			
Prepaid listing expenses		804	71
Deferred issue costs		1,604	4,611
		<u>2,408</u>	<u>4,682</u>

The Group allows an average credit period of 90 to 180 days to its customers and payment platforms. The payment platforms collect payments from the game players and then repay the balance after deducting the service fees to the Group.

The following is an aging analysis of trade receivables presented based on dates of delivery of goods or monthly statements issued, at the end of the reporting period:

	At 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
<u>THE GROUP</u>			
Not yet billed	2,139	–	–
0 — 90 days	22,297	42,941	39,780
91 — 180 days	7,347	13,706	9,222
Over 180 days	429	–	–
	<u>32,212</u>	<u>56,647</u>	<u>49,002</u>

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer.

Before the application of HKFRS 9 on 1 January 2018, in determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of each reporting period. The trade receivables past due but not provided for as at the end of each reporting period were either subsequently settled or had no historical default of payments and the directors of the Company believe that no impairment is required.

The Group has a policy for allowance of impairment loss which is based on the evaluation of collectability and ageing analysis of trade receivables and on management's judgement including the creditworthiness and the past collection history of each customer.

As at 31 December 2017, 31 December 2018 and 31 December 2019, trade receivables which are past due but not impaired amounted to RMB429,000, nil and RMB473,000, respectively. The Group believes that the amounts are still recoverable as the counterparties have good repayment history and sound financial position. The Group does not hold any collateral over these balances.

#### Aging of trade receivables which are past due but not impaired

	At 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
<u>THE GROUP</u>			
Overdue by			
0 — 30 days	379	–	473
31 — 90 days	50	–	–
	<u>429</u>	<u>–</u>	<u>473</u>

#### Movement in the provision for impairment loss

	Year ended 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
<u>THE GROUP</u>			
Balance at beginning of the year	–	41	88
Impairment loss recognised on trade receivables	41	136	161
Amount written off as uncollectible	–	(50)	–
Reversal of impairment loss	–	(39)	(88)
	<u>41</u>	<u>88</u>	<u>161</u>

Upon the application of HKFRS 9 on 1 January 2018, the Group applies simplified approach to provide for ECL prescribed by HKFRS 9. The Group assessed the ECL for trade receivables individually as at 1 January 2018, 31 December 2018 and 31 December 2019. As at 1 January 2018, 31 December 2018 and 31 December 2019, impairment allowances of RMB41,000, RMB88,000 and RMB161,000 are recognised, respectively, which are calculated based on the probability of default, loss given default and exposure at default, based on historical credit loss experience. The management of the Group has also assessed all available forward looking information, including but not limited to expected growth rate of the industry and expected subsequent settlement, and concluded that there is no significant increase in credit risk. The details of assessment of ECL on trade receivables as at 31 December 2018 and 31 December 2019 are set out in note 29(b).

#### 17. AMOUNTS DUE FROM/TO A DIRECTOR

##### THE GROUP

The amounts are non-trade in nature, unsecured, interest-free and repayable on demand.

##### Amount due from a director

	Year ended 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Maximum amount outstanding during the year	–	7	7
	<u>          </u>	<u>          </u>	<u>          </u>

#### 18. AMOUNTS DUE FROM/TO SHAREHOLDERS

##### THE GROUP AND THE COMPANY

The amounts are non-trade in nature, unsecured, interest-free and repayable on demand.

As at 31 December 2019, the amounts due to shareholders of RMB33,000 are denominated in United States dollars (“US\$”).

Subsequent to 31 December 2019, the amounts due to shareholders were fully settled.

#### 19. BANK BALANCES AND CASH

##### THE GROUP

Bank balances and cash comprise cash held by the Group and short-term bank deposits with original maturity of three months or less. As at 31 December 2017, 31 December 2018 and 31 December 2019, the bank balances carried interest at the prevailing market rate of 0.01% to 0.35% per annum, 0.01% to 0.35% per annum and 0.01% to 0.35% per annum, respectively.

Included in bank balances and cash are the following amounts denominated in currencies other than the functional currency of the relevant group entity to which relates:

	At 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Hong Kong dollars (“HK\$”)	554	150	5,657
US\$	4,162	389	200
	<u>          </u>	<u>          </u>	<u>          </u>



## 20. TRADE AND OTHER PAYABLES

	At 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
<u>THE GROUP</u>			
Trade payables	16,555	13,194	11,865
Other tax payables	2,207	4,794	682
Payroll and welfare payables	816	685	1,036
Accrued listing expenses and accrued issue costs	–	719	3,933
Payable for purchase of intangible assets	–	1,840	–
Others	345	–	–
	<u>19,923</u>	<u>21,232</u>	<u>17,516</u>
<u>THE COMPANY</u>			
Accrued listing expenses and accrued issue costs	–	719	3,933
Payroll and welfare payables	–	–	3
	<u>–</u>	<u>719</u>	<u>3,936</u>

The credit period on services provided by suppliers is generally from 30 to 90 days.

The following is an aging analysis of trade payables presented based on the dates of receipt of services or monthly statements issued at the end of each reporting period:

	At 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
<u>THE GROUP</u>			
0 — 30 days	2,727	3,102	3,352
31 — 60 days	2,073	5,339	5,370
61 — 90 days	2,667	3,178	3,143
91 — 180 days	6,853	–	–
Over 180 days	2,235	1,575	–
	<u>16,555</u>	<u>13,194</u>	<u>11,865</u>

Included in trade and other payables are the following amounts denominated in a currency other than financial currency of the relevant group entity to which relates:

	At 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
HK\$	<u>–</u>	<u>574</u>	<u>3,622</u>

## 21. LEASE LIABILITIES

THE GROUP

	At 31 December 2019 RMB'000
Analysed as:	
Non-current	–
Current	37
	<u>37</u>
	<u><u>37</u></u>
	At 31 December 2019 RMB'000
Maturity analysis:	
No later than one year	37
	<u>37</u>
Minimum lease payments due:	
No later than one year	37
Less: Future finance charges	–*
Present value of lease obligation	37
	<u>37</u>

\* The amount is less than RMB1,000.

The Group does not expose to a significant liquidity risk with regard to its lease liabilities. Lease liabilities are monitored within the Group's treasury function.

The Group leases various properties to operate its business and these lease liabilities are measured at the present value of the lease payments that are not yet paid.

Lease and rental are negotiated and fixed for term of 1 to 3 years.

## 22. CONTRACT LIABILITIES

THE GROUP

As at 31 December 2017, 31 December 2018 and 31 December 2019, contract liabilities primarily consist of advances from customers for development and sales of customised software and games amounting to RMB913,000, RMB950,000 and nil, respectively, the unamortised revenue from sales of game tokens and other virtual items for mobile games in respect of publishing of third party games via the Group's self-operated platform, amounting to RMB700,000, nil and nil, respectively, and the unamortised revenue from sales of game tokens and other virtual items for mobile games in respect of publishing of self-developed games with other publishing service providers, amounting to nil, RMB8,565,000 and RMB636,000, respectively, as the Group has an implied obligation to provide services for the unused game tokens and the durable virtual items over the Player Relationship Period.

The contract liabilities of RMB1,613,000 and RMB8,565,000 as at 31 December 2017 and 31 December 2018 were recognised as revenue during the years ended 31 December 2018 and 31 December 2019, respectively. As at 31 December 2019, the management of the Group expects the contract liabilities of RMB636,000 will be recognised as revenue during the year ending 31 December 2020.

**23. AMOUNTS DUE TO SUBSIDIARIES**THE COMPANY

The amounts are non-trade in nature, unsecured, interest-free and repayable on demand.

**24. PROVISION FOR WARRANTY**THE GROUP

The movement of provision for warranty is as follows:

	<b>At 31 December</b>		
	<b>2017</b> <i>RMB'000</i>	<b>2018</b> <i>RMB'000</i>	<b>2019</b> <i>RMB'000</i>
Balance at beginning of the year	–	199	–
Provision for the year	199	–	–
Utilisation for the year	–	(199)	–
	<u>–</u>	<u>(199)</u>	<u>–</u>
Balance at end of the year	<u>199</u>	<u>–</u>	<u>–</u>

The provision for warranty represents management's best estimate of the Group's liability for customised games under the warranty period of 3 months as required under the relevant sale contract.

**25. PAID-IN CAPITAL/SHARE CAPITAL**

As at 1 January 2017, the register capital of Dinglian Technology was increased to RMB5,000,000, which had been fully paid.

The paid-in capital of the Group represents the paid-in capital of Dinglian Technology as at 1 January 2017 and 31 December 2017.

The share capital as at 31 December 2018 and 31 December 2019 represents the share capital of the Company.

	<b>Number of shares</b>	<b>Amount</b>	
		<i>USD'000</i>	<i>RMB'000</i>
<u>THE COMPANY</u>			
Ordinary shares of US\$0.0001 each			
Authorised:			
At 18 April 2018 (date of incorporation),			
31 December 2018 and 31 December 2019	500,000,000	<u>50</u>	<u>343</u>
Issued and fully paid:			
At 18 April 2018 (date of incorporation),			
31 December 2018 and 31 December 2019	100,000,000	<u>10</u>	<u>69</u>

The Company was incorporated on 18 April 2018 with an authorised share capital of US\$50,000 dividend into 500,000,000 ordinary shares of US\$0.0001 each. At the date of incorporation, 100,000,000 ordinary shares of US\$0.0001 each was issued to Registered Shareholders at par for cash to provide initial capital.

## 26. RESERVES OF THE COMPANY

	<b>Accumulated losses RMB'000</b>
At 18 April 2018 (date of incorporation)	–
Loss and total comprehensive expense for the period	<u>(4,810)</u>
At 31 December 2018	(4,810)
Loss and total comprehensive expense for the year	<u>(11,934)</u>
At 31 December 2019	<u><u>(16,744)</u></u>

## 27. OPERATING LEASES

**The Group as lessee**

At 31 December 2017 and 2018, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	<b>At 31 December</b>	
	<b>2017</b>	<b>2018</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	185	365
In the second to fifth year inclusive	<u>192</u>	<u>303</u>
	<u><u>377</u></u>	<u><u>668</u></u>

Operating lease payments represented rentals payable by the Group for certain of its office premises. Leases were negotiated for a term ranging from 1 year to 3 years. Rentals were fixed at the date of signing of lease agreements.

At 31 December 2019, the Group had commitments for future minimum lease payments under non-cancellable short-term leases and lease of low-value assets which fall due as follows:

	<b>At 31 December 2019 RMB'000</b>
Within one year	165
In the second to fifth year inclusive	<u>3</u>
	<u><u>168</u></u>

Short-term leases represent rentals to be payable by the Group for certain office premises. Leases are negotiated for a term less than 1 year. Rentals are fixed at the date of signing of lease agreements.

**28. CAPITAL RISK MANAGEMENT**

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged throughout the Track Record Period.

The capital structure of the Group consists of equity attributable to owners of the Company, comprising paid-in capital/share capital and reserves as disclosed in the consolidated statements of changes in equity.

The management of the Group reviews the capital structure regularly. The Group considers the cost of capital and the risks associated with each class of capital. Based on the recommendations of the directors, the Group will balance its overall capital structure through new share issues of the Company.

**29. FINANCIAL INSTRUMENTS****a. Categories of financial instruments**

	<b>At 31 December</b>		
	<b>2017</b> <i>RMB'000</i>	<b>2018</b> <i>RMB'000</i>	<b>2019</b> <i>RMB'000</i>
<b>THE GROUP</b>			
<i>Financial assets</i>			
Loans and receivables (including cash and cash equivalents)	59,489	–	–
Financial assets at amortised costs	–	89,046	97,971
	<u>59,489</u>	<u>89,046</u>	<u>97,971</u>
<i>Financial liabilities</i>			
Amortised cost	16,908	15,763	15,831
	<u>16,908</u>	<u>15,763</u>	<u>15,831</u>
<b>THE COMPANY</b>			
<i>Financial assets</i>			
Financial assets at amortised costs	–	69	182
	<u>–</u>	<u>69</u>	<u>182</u>
<i>Financial liabilities</i>			
Amortised cost	–	7,218	21,536
	<u>–</u>	<u>7,218</u>	<u>21,536</u>

**b. Financial risk management objectives and policies**

The Group's and the Company's major financial instruments include trade receivables, bank balances and cash, trade and other payables, amount due from/to a director, amounts due from/to shareholders and amounts due to subsidiaries. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

**Market risk****(i) Currency risk**

The carrying amounts of the Group's foreign currency denominated monetary assets (bank balances and cash) and liabilities (trade and other payables and amounts due to shareholders) at the reporting date are as follows:

	At 31 December		
	2017 RMB'000	2018 RMB'000	2019 RMB'000
<b>THE GROUP</b>			
<b>Assets</b>			
HK\$	554	150	5,657
US\$	4,162	389	200
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Liabilities</b>			
HK\$	–	574	3,622
US\$	–	–	33
	<u>          </u>	<u>          </u>	<u>          </u>

The Group currently does not have a foreign exchange hedging policy. However, the management of the Group monitors foreign exchange exposure and will consider hedging significant foreign exchange exposure should the need arises.

**Sensitivity analysis**

The Group mainly exposes to HK\$ and US\$, which are arising from relevant group entities' foreign currency denominated monetary assets and liabilities for the Group's operating activities and financing activities in Hong Kong and Cayman. The following table details the Group's sensitivity to a 5% increase and decrease in the functional currencies of the group entities against the relevant foreign currencies. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period. A positive (negative) number below indicates an increase (decrease) in profit after taxation where the functional currencies of each group entity strengthens 5% against the relevant foreign currencies. For a 5% weakening of the functional currencies against the relevant foreign currencies, there would be an equal and opposite impact on the profit after taxation.

	Year ended 31 December		
	2017 RMB'000	2018 RMB'000	2019 RMB'000
HK\$	(23)	23	(55)
US\$	(174)	(16)	(7)
	<u>          </u>	<u>          </u>	<u>          </u>

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the exposure at the end of each reporting period does not reflect the exposure during the years ended 31 December 2017 and 31 December 2018 and 31 December 2019.

The Company has no significant currency risk as most of its transactions are denominated in its functional currency.

**(ii) Interest rate risk**

The Group is exposed to cash flow interest rate risk in relation to interest bearing bank balances. The Group's exposure to cash flow interest rate risk is mainly concentrated on the fluctuation of the prevailing market interest rates.

No sensitivity analysis is presented for bank balances as the directors of the Company consider the Group's exposure to cash flow interest rate risk is not material.

The Group is also exposed to fair value interest rate risk in relation to the lease liabilities. However, the directors of the Company consider the fair value interest rate risk on the fixed rate lease liabilities is insignificant as they are relatively short-term.

The Company has no significant interest rate risk.

*Credit risk and impairment assessment*

The Group's credit risk is primarily attributable to trade and other receivables, amount due from a director, amounts due from shareholders and bank balances. The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge the obligations by counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statements of financial position at the end of each reporting period.

*Trade receivables arising from contracts with customers*

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits and credit approvals. Before accepting any new customer, the Group assesses the potential customer's credit quality, assign an internal credit rating and defines credit limits by customer. Limits and scoring attributed to customers are reviewed on a periodic basis. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In addition, the Group performs impairment assessment under ECL model upon application of HKFRS 9 on trade balances based on individual assessment. Before application of HKFRS 9, the Group performs impairment assessment under incurred loss model on trade balances. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

As at 31 December 2017, 31 December 2018 and 31 December 2019, the Group has concentration of credit risk on trade receivables as 48%, 45% and 55% of the total trade receivables were due from the Group's five largest customers/payment platforms, respectively.

The Group's internal credit grading assessment as at 1 January 2018, 31 December 2018 and 31 December 2019 comprises the following categories:

Internal credit rating	Description	Trade receivables
Low risk	The counterparty has a low risk of default and does not have any past-due amounts	Lifetime ECL — not credit-impaired
Watch list	Debtor frequently repays but usually settle after due date	Lifetime ECL — not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL — credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off

As part of the Group's credit risk management, the Group applies internal credit rating for its customers. The following table provides information about the exposure to credit risk for trade receivables which are assessed individually as at 31 December 2018 and 31 December 2019 within lifetime ECL (not credit impaired).

**Gross carrying amount**

Internal credit rating	Trade receivables RMB'000	Range of expected credit loss	Impairment loss allowance RMB'000
At 31 December 2018			
Low risk	56,735	0.17%–0.5%	88
At 31 December 2019			
Low risk	48,688	0.17%–0.5%	159
Watch list	475	0.5%	2

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. There is no significant change in the composition of the portfolio of the low risk category and the credit risk remains low during the Track Record Period.

During the years ended 31 December 2018 and 31 December 2019, the Group provided impairment loss of RMB136,000 and RMB161,000, respectively, and recognised a reversal of impairment loss of RMB39,000 and RMB88,000, respectively, for trade receivables, based on the individual assessment. Impairment allowances of RMB88,000 and RMB161,000 were recognised on debtors as at 31 December 2018 and 31 December 2019, respectively.

The following table shows the movement in lifetime ECL that has been recognised for trade receivables under the simplified approach.

	<b>Lifetime ECL (not credit- impaired) RMB'000</b>	<b>Lifetime ECL (credit- impaired) RMB'000</b>	<b>Total RMB'000</b>
At 31 December 2017 under HKAS 39 and 1 January 2018 under HKFRS 9	41	–	41
Impairment losses recognised	136	–	136
Transfer to credit-impaired	(50)	50	–
Write-offs	–	(50)	(50)
Reversal of impairment loss	(39)	–	(39)
	<hr/>	<hr/>	<hr/>
At 31 December 2018	88	–	88
Impairment loss recognised	161	–	161
Reversal of impairment loss	(88)	–	(88)
	<hr/>	<hr/>	<hr/>
At 31 December 2019	<u>161</u>	<u>–</u>	<u>161</u>

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the trade receivables are over one year past due, whichever occurs earlier.

*Amount due from a director and amounts due from shareholders*

The amount due from a director and amounts due from shareholders were assessed individually, no allowance was recognised during the year ended 31 December 2018 and 31 December 2019.

*Bank balances*

For bank deposits, no impairment allowance was recognised was made since the directors of the Company consider the probability of default is negligible as such amounts are receivable from or placed in banks having good reputation.

The Company has no significant credit risk.

*Liquidity risk*

In the management of the liquidity risk, the Group and the Company monitor and maintain a level of cash and cash equivalents deemed adequate by the management to finance the Group's and the Company's operations and mitigate the effects of fluctuations in cash flows.



The following table details the Group's and the Company's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group and the Company can be required to pay.

*Liquidity risk table*

	Weighted average interest rate %	On demand or less than 6 months RMB'000	6 months to 1 year	Undiscounted cash flows RMB'000	Total carrying amounts RMB'000
<b>THE GROUP</b>					
<b>At 31 December 2017</b>					
Trade and other payables	N/A	16,900	–	16,900	16,900
Amount due to a director	N/A	8	–	8	8
		<u>16,908</u>	<u>–</u>	<u>16,908</u>	<u>16,908</u>
<b>At 31 December 2018</b>					
Trade and other payables	N/A	15,753	–	15,753	15,753
Amount due to a director	N/A	10	–	10	10
		<u>15,763</u>	<u>–</u>	<u>15,763</u>	<u>15,763</u>
<b>At 31 December 2019</b>					
Trade and other payables	N/A	15,798	–	15,798	15,798
Amounts due to shareholders	N/A	33	–	33	33
Lease liabilities	5.39	37	–	37	37
		<u>15,868</u>	<u>–</u>	<u>15,868</u>	<u>15,868</u>
<b>THE COMPANY</b>					
<b>At 31 December 2018</b>					
Other payables	N/A	719	–	719	719
Amounts due to subsidiaries	N/A	6,499	–	6,499	6,499
		<u>7,218</u>	<u>–</u>	<u>7,218</u>	<u>7,218</u>
<b>At 31 December 2019</b>					
Other payables	N/A	3,933	–	3,933	3,933
Amounts due to shareholders	N/A	33	–	33	33
Amounts due to subsidiaries	N/A	17,570	–	17,570	17,570
		<u>21,536</u>	<u>–</u>	<u>21,536</u>	<u>21,536</u>

**c. Fair value measurements of financial instruments**

*Fair value of the Group's financial assets and financial liabilities that are not measured at fair value on a recurring basis*

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised costs in the Historical Financial Information approximate their respective fair values at the end of each reporting period.

**30. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES**

The table below details changes in the Group's liabilities arising from financing activities. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the consolidated statements of cash flows as cash flows from financing activities.

	Lease liabilities <i>RMB'000</i>	Accrued issue costs <i>RMB'000</i>	Amount due to a director <i>RMB'000</i>	Amounts due to shareholders <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2017	–	–	86	–	86
Financing cash flows	–	–	(78)	–	(78)
At 31 December 2017	–	–	8	–	8
Financing cash flows	–	(1,424)	2	–	(1,422)
Issue costs accrued	–	1,604	–	–	1,604
Non-cash transaction –issue of shares	–	–	–	–	–
At 31 December 2018	–	180	10	–	190
Adjustment on adoption of HKFRS 16	186	–	–	–	186
At 1 January 2019	186	180	10	–	376
Financing cash flows	(155)	(2,183)	(10)	33	(2,315)
Issue costs accrued	–	3,007	–	–	3,007
Finance costs accrued	6	–	–	–	6
At 31 December 2019	<u>37</u>	<u>1,004</u>	<u>–</u>	<u>33</u>	<u>1,074</u>

**31. RELATED PARTY TRANSACTIONS****Compensation of key management personnel**

The remuneration of key management personnel during the Track Record Period was as follows:

	Year ended 31 December		
	2017 <i>RMB'000</i>	2018 <i>RMB'000</i>	2019 <i>RMB'000</i>
Salaries and other benefits	795	806	1,048
Performance related incentive payments	–	50	–
Retirement benefit scheme contributions	89	94	116
	<u>884</u>	<u>950</u>	<u>1,164</u>

The remuneration of key management personnel is determined by the executive directors having regard to the performance of individuals and market trends.

**32. RETIREMENT BENEFIT SCHEME**

The employees of the Group's subsidiaries in the PRC are members of a state-managed retirement benefit scheme operated by the government of the PRC. The subsidiaries are required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

During the years ended 31 December 2017 and 31 December 2018 and 31 December 2019, the retirement benefit scheme contributions amounted to RMB678,000, RMB1,230,000 and RMB1,315,000, respectively. No forfeited contributions has been used to reduce the level of contributions during the Track Record Period.

## 33. INVESTMENTS IN SUBSIDIARIES

## THE COMPANY

At  
31 December  
2019  
RMB'000

Unlisted investment, at cost

—\*

\* The amount is less than RMB1,000.

As at the date of this report, the Company has direct and indirect equity interests in the following subsidiaries:

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid capital/ registered capital	Shareholding/equity interest attributable to the Company as at			date of this report	Principal activities	Notes
			31 December		2019			
			2017	2018				
<b>Directly held:</b>								
Sino-Entertainment (HK)	Hong Kong, 30 April 2018	HK\$100	N/A	100%	100%	100%	Investment holding	(a)
Sino-Entertainment Technology (HK)	Hong Kong, 30 April 2018	HK\$100	N/A	100%	N/A	N/A	Investment holding	(i)
<b>Indirectly held:</b>								
Khorgos Entertainment (霍爾果斯娛科信息技術有限公司 (formerly known as 霍城娛科信息技術有限公司))	PRC, 20 September 2018	RMB1,000,000*	N/A	100%	100%	100%	Investment holding and development of mobile games	(b), (h)
Dinglian (International) (羅城侗族自治縣頂聯科技(國際)有限公司)	Hong Kong, 2 February 2017	HK\$21,000,000	N/A	N/A	100%	100%	Development, operation and publishing of mobile games	(e), (g)
<b>Controlled by the Company pursuant to the Contractual Arrangements (note (c)):</b>								
Dinglian Technology (羅城侗族自治縣頂聯科技有限責任公司)	PRC, 2 December 2014	RMB5,000,000	100%	100%	100%	100%	Development, operation and publishing of mobile games	(d)
Dinglian (International) (羅城侗族自治縣頂聯科技(國際)有限公司)	Hong Kong, 2 February 2017	HK\$21,000,000	100%	100%	N/A	N/A	Development, operation and publishing of mobile games	(e), (g)
Khorgos Dinglian (霍爾果斯頂聯互動網絡科技有限公司)	PRC, 19 July 2017	RMB1,000,000	100%	100%	100%	100%	Development, operation and publishing of mobile games	(f), (j)
Beihai Dinglian (北海頂聯科技有限公司)	PRC, 28 September 2017	RMB1,000,000	100%	100%	100%	100%	Development, operation and publishing of mobile games	(f)

\* The registered capital of Khorgos Entertainment is RMB1,000,000. As at 31 December 2018, 31 December 2019 and the date of this report, no capital injection has been made.

All entities now comprising the Group are limited liability companies and have adopted 31 December as their financial year end date, except Sino-Entertainment (HK) which has adopted 30 September as its financial year end date.

*Notes:*

- (a) The statutory financial statements for the date of incorporation date to 30 September 2019 for Sino-Entertainment (HK) were prepared in accordance with the Hong Kong Small and Medium-Sized Entity Financial Reporting Standard issued by the HKICPA and were audited by VenturePro CPA Limited in accordance with HKSAs issued by the HKICPA.
- (b) The statutory financial statements of Khorgos Entertainment for the period from date of establishment to 31 December 2018 and the year ended 31 December 2019 were prepared in accordance with relevant accounting principles and financial regulations applicable to the PRC enterprises and were audited by Guangxi Zhongdeqin Certified Public Accountants (廣西中德勤會計師事務所有限公司) (“Guangxi Zhongdeqin”), certified public accountants registered in the PRC.
- (c) These subsidiaries are controlled through Contractual Arrangements as explained in note 2. Due to the restrictions imposed by the PRC Laws on foreign ownership of companies engaged in the Listing Business carried out by the Group through the Operating Entities, the Group does not have legal ownership in equity of these subsidiaries.
- (d) The statutory financial statements of Dinglian Technology for the years ended 31 December 2017, 2018 and 2019 were prepared in accordance with relevant accounting principles and financial regulations applicable to the PRC enterprises and were audited by Guangxi Zhongdeqin.
- (e) The share capital of Dinglian (International) increased from HK\$1,000,000 to HK\$6,000,000 on 10 September 2018 and increased from HK\$6,000,000 to HK\$11,000,000 on 21 February 2019 and increased from HK\$11,000,000 to HK\$21,000,000 on 11 March 2019. It has been fully paid up. The statutory financial statements of Dinglian (International) for the period from date of incorporation to 31 December 2017 and the years ended 31 December 2018 and 2019 were prepared in accordance with HKFRSs and were audited by Chee Chan & Co. Certified Public Accountants (Practising), certified public accountants registered in Hong Kong.
- (f) The statutory financial statements of these companies for the period from date of establishment to 31 December 2017 and the years ended 31 December 2018 and 2019 were prepared in accordance with relevant accounting principles and financial regulations applicable to the PRC enterprises and were audited by Guangxi Zhongdeqin.
- (g) Dinglian Technology owned 100% equity interest of Dinglian (International) since the establishment of Dinglian (International). As at 17 April 2019, Dinglian Technology entered into a contract with Sino-Entertainment (HK) to transfer its holding of 100% equity interest in Dinglian (International) to Sino-Entertainment (HK).
- (h) Khorgos Entertainment has established a branch, namely Khorgos Entertainment Information Technology Company Limited Beihai Branch 霍爾果斯娛科信息技術有限公司北海分公司 (formerly known as 霍城娛科信息技術有限公司北海分公司), on 28 January 2019.
- (i) Sino-Entertainment Technology (HK) was dissolved on 20 September 2019.
- (j) Khorgos Dinglian has established a branch, namely Khorgos Dinglian Interactive Network Technology Company Limited Beihai Branch 霍爾果斯頂聯互動網絡科技有限公司北海分公司, on 3 June 2019 and is dissolved on 11 May 2020.

**34. SUBSEQUENT EVENTS**

Saved as disclosed in the report, subsequent to the end of the Track Record Period, the following significant events took place:

On 19 June 2020, written resolutions of the shareholders of the Company were passed to approve the matters set up in the paragraph headed "Written resolutions of our Shareholders passed on 19 June 2020" in Appendix IV of the Prospectus. It was resolved, among other things:

- (i) conditionally adopted a share option scheme where eligible participants may be granted options entitling them to subscribe for the Company's shares. No share has been granted since the adoption of the scheme. The principal terms of the share option scheme are summarised in the section headed "Share Option Scheme" in Appendix IV to the Prospectus; and
- (ii) conditional on the share premium account of the Company being credited, to approve the capitalisation of US\$22,400 standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par 224,000,000 shares for allotment and issue to holders of shares whose names appear on the register of members of the Company in proportion (as nearly as possible without involving fractions so that no fraction of a share shall be allotted and issued) to their then existing holdings in the Company and so that the shares to be allotted and issued pursuant to this resolution should rank *pari passu* in all respects with the then existing issued.

The outbreak of Novel Coronavirus ("Covid-19") in the PRC has caused the local government offices to impose policies to delay opening of offices after Lunar New Year holiday, until certain hygiene measures are fulfilled and satisfied by the local government. The Group's office has been re-opened on 10 February 2020. However, as the Group's services are performed through online platform, the services were maintained and employees were able to work through remote access to the servers.

As at the date of report, the Covid-19 has not resulted in material impact to the Group. Pending on the development and spread of Covid-19 subsequent to the date of this report, further changes in economic conditions arising thereof may have impact on the financial results of the Group, the extent of which could not be estimated as at the date of this report.

**35. SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements of the Group, the Company or any of its subsidiaries have been prepared in respect of any period subsequent to the end of the Track Record Period.

The information set out in this Appendix does not form part of the accountants' report on the financial information of our Group for the three years ended 31 December 2019 (the "Accountants' Report") from Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the reporting accountants of our Company, as set out in Appendix I to this prospectus, and is included herein for information only.

The unaudited pro forma financial information should be read in conjunction with the section headed "Financial information" in this prospectus and the Accountants' Report, the text of which is set out in Appendix I to this prospectus.

#### A. STATEMENT OF UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF OUR GROUP ATTRIBUTABLE TO THE OWNERS OF OUR COMPANY

The following is an illustrative statement of the unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to the owners of our Company which has been prepared in accordance with paragraph 4.29 of the Listing Rules for the purpose of illustrating the effect of the Global Offering as if it had taken place on 31 December 2019.

The statement of unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to the owners of our Company has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of our Group attributable to the owners of our Company had the Global Offering been completed on 31 December 2019 or at any future dates.

It is prepared based on the audited consolidated net tangible assets of our Group attributable to the owners of our Company as at 31 December 2019 as derived from the Accountants' Report set out in Appendix I to this prospectus and adjusted as described below.

	Audited consolidated net tangible assets of our Group attributable to the owners of our Company as at 31 December 2019 RMB'000 (Note 1)	Estimated net proceeds from the Global Offering RMB'000 (Note 2)	Unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to the owners of our Company as at 31 December 2019 RMB'000	Unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to the owners of our Company as at 31 December 2019 per Share	
				RMB (Note 3)	HK\$ (Note 4)
Based on an Offer Price of HK\$1.63 per Share	115,161	96,996	212,157	0.53	0.59
Based on an Offer Price of HK\$1.87 per Share	115,161	112,632	227,793	0.57	0.64

*Notes:*

- (1) The audited consolidated net tangible assets of our Group attributable to the owners of our Company as at 31 December 2019 is extracted from the Accountants' Report set out in Appendix I to this prospectus which is based on the audited consolidated net assets of our Group attributable to the owners of our Company as at 31 December 2019 of RMB128,986,000 with an adjustment for intangible assets of RMB13,825,000.
- (2) The estimated net proceeds from the Global Offering are based on 76,000,000 Offer Shares at the Offer Price of the lower end and the upper end of HK\$1.63 (equivalent to RMB1.46) per Share and HK\$1.87 (equivalent to RMB1.68) per Share, respectively, after deduction of the estimated underwriting fees and other related expenses incurred or expected to be incurred by our Group other than listing expenses which have been recognised in profit or loss up to 31 December 2019. It does not take into account of any Shares which may be issued upon the exercise of options which may be granted under the Share Option Scheme or any Shares which may be issued or repurchased by our Company pursuant to the general mandates of our Company. The proceeds from the Global Offering in HK\$ is translated to RMB at HK\$1.1163 to RMB1 with reference to the closing rate published by the People's Bank of China on 31 December 2019. No representation is made that HK\$ amounts have been, could have been or may be converted to RMB, or vice versa, at the rate or any other rates or at all.
- (3) The unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to the owners of our Company as at 31 December 2019 per Share is calculated based on 400,000,000 Shares in issue assuming that the Capitalisation Issue and the Global Offering had been completed on 31 December 2019. It does not take into account of any Shares that may be issued upon the exercise of options which may be granted under the Share Option Scheme or any Shares which may be issued or repurchased by our Company pursuant to the general mandates of our Company.
- (4) For the purpose of unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to the owners of our Company per Share, the amounts stated in RMB are converted into HK\$ at the rate of RMB1 to HK\$1.1163 with reference to the closing rate published by the People's Bank of China on 31 December 2019. No representation is made that RMB amounts have been, could have been or may be converted to HK\$, or vice versa, at the rate or any other rates or at all.
- (5) No adjustment has been made to reflect any trading result or other transactions of our Group entered into subsequent to 31 December 2019.

**B. INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION**

*The following is the text of a report received from the reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, prepared for the purpose of incorporation in this prospectus.*

**Deloitte.****德勤****INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION****To the Directors of Sino-Entertainment Technology Holdings Limited**

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Sino-Entertainment Technology Holdings Limited (the “**Company**”) and its subsidiaries (hereinafter collectively referred to as the “**Group**”) by the directors of the Company (the “**Directors**”) for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to the owners of the Company as at 31 December 2019 and related notes as set out on pages II-1 to II-2 of Appendix II to the prospectus issued by the Company dated 30 June 2020 (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 Appendix II to the Prospectus.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed offer of shares of the Company (the “**Global Offering**”) on the Group’s financial position as at 31 December 2019 as if the Global Offering had taken place at 31 December 2019. As part of this process, information about the Group’s financial position has been extracted by the Directors from the Group’s historical financial information for each of the three years ended 31 December 2019, on which an accountants’ report set out in Appendix I to the Prospectus has been published.

**Directors’ Responsibilities 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 (the “**HKICPA**”).

**Our Independence and Quality Control**

We have complied with the independence and other ethical requirements of the “Code of Ethics for Professional Accountants” issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 “Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements” 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 Accountants' 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 accountants plan and perform 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 an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group 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 event or transaction at 31 December 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 accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, 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.

**Opinion**

In our opinion:

- (a) the unaudited pro forma financial information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*  
Hong Kong

30 June 2020

<b>APPENDIX III    SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW</b>
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Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 18 April 2018 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the “**Companies Law**”). The Company’s constitutional documents consist of its Memorandum of Association (the “**Memorandum**”) and its Amended and Restated Articles of Association (the “**Articles**”).

## **1.    MEMORANDUM OF ASSOCIATION**

- (a)    The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b)    The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

## **2.    ARTICLES OF ASSOCIATION**

The Articles were conditionally adopted on 19 June 2020 with effect from the Listing Date. The following is a summary of certain provisions of the Articles:

### **(a)    Shares**

#### *(i)    Classes of shares*

The share capital of the Company consists of ordinary shares.

#### *(ii)   Variation of rights of existing shares or classes of shares*

Subject to the Companies Law, if at any time the share capital of the Company is divided into different classes of shares, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy (whatever the number of shares held by them) shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

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Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

**(iii)    *Alteration of capital***

The Company may by ordinary resolution of its members:

- (i)    increase its share capital by the creation of new shares;
- (ii)    consolidate all or any of its capital into shares of larger amount than its existing shares;
- (iii)    divide its shares into several classes and attach to such shares any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;
- (iv)    subdivide its shares or any of them into shares of smaller amount than is fixed by the Memorandum; or
- (v)    cancel any shares which, at the date of passing of the resolution, have not been taken and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

**(iv)    *Transfer of shares***

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time.

Notwithstanding the foregoing, for so long as any shares are listed on the Stock Exchange, titles to such listed shares may be evidenced and transferred in accordance with the laws applicable to and the rules and regulations of the Stock Exchange that are or shall be applicable to such listed shares. The register of members in respect of its listed shares (whether the principal register or a branch register) may be kept by recording the particulars required by Section 40 of the Companies Law in a form otherwise than legible if such recording otherwise complies with the laws applicable to and the rules and regulations of the Stock Exchange that are or shall be applicable to such listed shares.

The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee. The transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect of that share.

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The board may, in its absolute discretion, at any time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

The board may decline to recognise any instrument of transfer unless a fee (not exceeding the maximum sum as the Stock Exchange may determine to be payable) determined by the Directors is paid to the Company, the instrument of transfer is properly stamped (if applicable), it is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in any newspaper or by any other means in accordance with the requirements of the Stock Exchange, at such times and for such periods as the board may determine. The register of members must not be closed for periods exceeding in the whole thirty (30) days in any year.

Subject to the above, fully paid shares are free from any restriction on transfer and free of all liens in favour of the Company.

**(v)    *Power of the Company to purchase its own shares***

The Company is empowered by the Companies Law and the Articles to purchase its own shares subject to certain restrictions and the board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by the Stock Exchange.

Where the Company purchases for redemption a redeemable share, purchases not made through the market or by tender must be limited to a maximum price determined by the Company in general meeting. If purchases are by tender, tenders must be made available to all members alike.

The board may accept the surrender for no consideration of any fully paid share.

**(vi)    *Power of any subsidiary of the Company to own shares in the Company***

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

**(vii)    *Calls on shares and forfeiture of shares***

The board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per

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annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

**(b) Directors**

**(i) *Appointment, retirement and removal***

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire by rotation shall include any Director who wishes to retire and not offer himself for re-election. Any further Directors so to retire shall be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification. Further, there are no provisions in the Articles relating to retirement of Directors upon reaching any age limit.

The Directors have the power to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

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A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and members of the Company may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office of director shall be vacated if:

- (aa) he resigns by notice in writing delivered to the Company;
- (bb) he becomes of unsound mind or dies;
- (cc) without special leave, he is absent from meetings of the board for six (6) consecutive months, and the board resolves that his office is vacated;
- (dd) he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (ee) he is prohibited from being a director by law; or
- (ff) he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed must, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

***(ii) Power to allot and issue shares and warrants***

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued (a) with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Directors may determine, or (b) on terms that, at the option of the Company or the holder thereof, it is liable to be redeemed.

The board may issue warrants or convertible securities or securities of similar nature conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may determine.

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Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of the Stock Exchange and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company are at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount to their nominal value.

Neither the Company nor the board is obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

***(iii) Power to dispose of the assets of the Company or any of its subsidiaries***

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

***(iv) Borrowing powers***

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

***(v) Remuneration***

The ordinary remuneration of the Directors is to be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors are also entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a



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Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration and such other benefits and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or past Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

The board may resolve to capitalise all or any part of any amount for the time being standing to the credit of any reserve or fund (including a share premium account and the profit and loss account) whether or not the same is available for distribution by applying such sum in paying up unissued shares to be allotted to (i) employees (including directors) of the Company and/or its affiliates (meaning any individual, corporation, partnership, association, joint-stock company, trust, unincorporated association or other entity (other than the Company) that directly, or indirectly through one or more intermediaries, controls, is controlled by or is under common control with, the Company) upon exercise or vesting of any options or awards granted under any share incentive scheme or employee benefit scheme or other arrangement which relates to such persons that has been adopted or approved by the members in general meeting, or (ii) any trustee of any trust to whom shares are to be allotted and issued by the Company in connection with the operation of any share incentive scheme or employee benefit scheme or other arrangement which relates to such persons that has been adopted or approved by the members in general meeting.

***(vi) Compensation or payments for loss of office***

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

***(vii) Loans and provision of security for loans to Directors***

The Company must not make any loan, directly or indirectly, to a Director or his close associate(s) if and to the extent it would be prohibited by the Companies Ordinance (Chapter 622 of the laws of Hong Kong) as if the Company were a company incorporated in Hong Kong.

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*(viii) Disclosure of interests in contracts with the Company or any of its subsidiaries*

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and upon such terms as the board may determine, and may be paid such extra remuneration therefor in addition to any remuneration provided for by or pursuant to the Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. The board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

No Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company must declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his close associates is materially interested, but this prohibition does not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his close associate(s) any security or indemnity in respect of money lent by him or any of his close associates or obligations incurred or undertaken by him or any of his close associates at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his close associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;

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- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company; or
- (ee) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his close associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his close associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

**(c) Proceedings of the Board**

The board may meet for the despatch of business, adjourn and otherwise regulate its meetings as it considers appropriate. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairperson of the meeting shall have an additional or casting vote.

**(d) Alterations to constitutional documents and the Company's name**

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

**(e) Meetings of members**

**(i) Special and ordinary resolutions**

A special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles.

Under the Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

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An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles.

***(ii)    Voting rights and right to demand a poll***

Subject to any special rights or restrictions as to voting for the time being attached to any shares, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll save that the chairperson of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorised representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its 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 pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)) including, where a show of hands is allowed, the right to vote individually on a show of hands.

Where the Company has any knowledge that any shareholder is, under the rules of the Stock Exchange, required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

***(iii)    Annual general meetings and extraordinary general meetings***

The Company must hold an annual general meeting of the Company every year within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of not more than eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of the Stock Exchange.

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Extraordinary general meetings may be convened on the requisition of one or more shareholders holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the board or the secretary for the purpose of requiring an extraordinary general meeting to be called by the board for the transaction of any business specified in such requisition. Such meeting shall be held within 2 months after the deposit of such requisition. If within 21 days of such deposit, the board fails to proceed to convene such meeting, the requisitionist(s) himself/herself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the board shall be reimbursed to the requisitionist(s) by the Company.

***(iv) Notices of meetings and business to be conducted***

An annual general meeting must be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days. All other general meetings must be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice is exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time and place of the meeting and particulars of resolutions to be considered at the meeting and, in the case of special business, the general nature of that business.

In addition, notice of every general meeting must be given to all members of the Company other than to such members as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to, among others, the auditors for the time being of the Company.

Any notice to be given to or by any person pursuant to the Articles may be served on or delivered to any member of the Company personally, by post to such member's registered address or by advertisement in newspapers in accordance with the requirements of the Stock Exchange. Subject to compliance with Cayman Islands law and the rules of the Stock Exchange, notice may also be served or delivered by the Company to any member by electronic means.

All business that is transacted at an extraordinary general meeting and at an annual general meeting is deemed special, save that in the case of an annual general meeting, each of the following business is deemed an ordinary business:

- (aa) the declaration and sanctioning of dividends;
- (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
- (cc) the election of directors in place of those retiring;
- (dd) the appointment of auditors and other officers; and
- (ee) the fixing of the remuneration of the directors and of the auditors.

***(v) Quorum for meetings and separate class meetings***

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairperson.

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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.

**(vi) Proxies**

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and is entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy is entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise as if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

**(f) Accounts and audit**

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records must be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting. However, an exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles; however, subject to compliance with all applicable laws, including the rules of the Stock Exchange, the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

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At the annual general meeting or at a subsequent extraordinary general meeting in each year, the members shall appoint an auditor to audit the accounts of the Company and such auditor shall hold office until the next annual general meeting. Moreover, the members may, at any general meeting, by special resolution remove the auditor at any time before the expiration of his terms of office and shall by ordinary resolution at that meeting appoint another auditor for the remainder of his term. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards which may be those of a country or jurisdiction other than the Cayman Islands. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor must be submitted to the members in general meeting.

**(g) Dividends and other methods of distribution**

The Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit.

The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

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Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

**(h)    Inspection of corporate records**

Pursuant to the Articles, the register and branch register of members shall be open to inspection for at least two (2) hours during business hours by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the office where the branch register of members is kept, unless the register is closed in accordance with the Articles.

**(i)    Rights of minorities in relation to fraud or oppression**

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman Islands law, as summarised in paragraph 3(f) of this Appendix.

**(j)    Procedures on liquidation**

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.



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Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

- (i) if the Company is wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively; and
- (ii) if the Company is wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company is wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

**(k) Subscription rights reserve**

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

**3. CAYMAN ISLANDS COMPANY LAW**

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman Islands law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

**(a) Company operations**

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

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**(b)    Share capital**

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the “share premium account”. At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium.

The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the “**Court**”), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

**(c)    Financial assistance to purchase shares of a company or its holding company**

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company’s shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm’s-length basis.

**(d)    Purchase of shares and warrants by a company and its subsidiaries**

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder and the Companies Law expressly provides that it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company’s articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other

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than shares held as treasury shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares purchased by a company is to be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company is not be treated as a member for any purpose and must not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share must not be voted, directly or indirectly, at any meeting of the company and must not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company's articles of association or the Companies Law.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

**(e) Dividends and distributions**

The Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account. With the exception of the foregoing, there are no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits.

No dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

**(f) Protection of minorities and shareholders' suits**

The Courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

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Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

**(g)    Disposal of assets**

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

**(h)    Accounting and auditing requirements**

A company must cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

An exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

**(i)    Exchange control**

There are no exchange control regulations or currency restrictions in the Cayman Islands.

**(j)    Taxation**

Pursuant to the Tax Concessions Law of the Cayman Islands, the Company has obtained an undertaking:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and

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- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 26 March 2019.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save for certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are a party to a double tax treaty entered into with the United Kingdom in 2010 but otherwise is not party to any double tax treaties.

**(k) Stamp duty on transfers**

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

**(l) Loans to directors**

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

**(m) Inspection of corporate records**

The notice of registered office is a matter of public record. A list of the names of the current directors and alternate directors (if applicable) are made available by the Registrar of Companies for inspection by any person on payment of a fee. The register of mortgages is open to inspection by creditors and members.

Members of the Company have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

**(n) Register of members**

An exempted company may maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. The register of members shall contain such particulars as required by Section 40 of the Companies Law. A branch register must be kept in the same manner in which a principal register is by the Companies Law required or permitted to be kept. The company shall cause to be kept at the place where the company's principal register is kept a duplicate of any branch register duly entered up from time to time.

There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of members, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

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**(o)    Register of Directors and Officers**

The Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

**(p)    Beneficial Ownership Register**

An exempted company is required to maintain a beneficial ownership register at its registered office that records details of the persons who ultimately own or control, directly or indirectly, more than 25% of the equity interests or voting rights of the company or have rights to appoint or remove a majority of the directors of the company. The beneficial ownership register is not a public document and is only accessible by a designated competent authority of the Cayman Islands. Such requirement does not, however, apply to an exempted company with its shares listed on an approved stock exchange, which includes the Stock Exchange. Accordingly, for so long as the shares of the Company are listed on the Stock Exchange, the Company is not required to maintain a beneficial ownership register.

**(q)    Winding up**

A company may be wound up (a) compulsorily by order of the Court, (b) voluntarily, or (c) under the supervision of the Court.

The Court has authority to order winding up in a number of specified circumstances including where the members of the company have passed a special resolution requiring the company to be wound up by the Court, or where the company is unable to pay its debts, or where it is, in the opinion of the Court, just and equitable to do so. Where a petition is presented by members of the company as contributories on the ground that it is just and equitable that the company should be wound up, the Court has the jurisdiction to make certain other orders as an alternative to a winding-up order, such as making an order regulating the conduct of the company's affairs in the future, making an order authorising civil proceedings to be brought in the name and on behalf of the company by the petitioner on such terms as the Court may direct, or making an order providing for the purchase of the shares of any of the members of the company by other members or by the company itself.

A company (save with respect to a limited duration company) may be wound up voluntarily when the company so resolves by special resolution or when the company in general meeting resolves by ordinary resolution that it be wound up voluntarily because it is unable to pay its debts as they fall due. In the case of a voluntary winding up, such company is obliged to cease to carry on its business (except so far as it may be beneficial for its winding up) from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court therein, there may be appointed an official liquidator or official liquidators; and the court may appoint to such office such person, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court must declare whether any act required or authorised to be done by the official liquidator is to be done by all or any one or more

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of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court.

As soon as the affairs of the company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and how the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting must be called by at least 21 days' notice to each contributory in any manner authorised by the company's articles of association and published in the Gazette.

**(r)    Reconstructions**

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

**(s)    Take-overs**

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

**(t)    Indemnification**

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

**(u)    Economic Substance Requirements**

Pursuant to the International Tax Cooperation (Economic Substance) Law, 2018 of the Cayman Islands ("ES Law") that came into force on 1 January 2019, a "relevant entity" is required to satisfy the economic substance test set out in the ES Law. A "relevant entity" includes an exempted company incorporated in the Cayman Islands as is the Company; however, it does not include an entity that is tax resident outside the Cayman Islands. Accordingly, for so long as the Company is a tax resident outside the Cayman Islands, including in Hong Kong, it is not required to satisfy the economic substance test set out in the ES Law.

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**4.    GENERAL**

Conyers Dill & Pearman, the Company’s special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in “Documents delivered to the Registrar of Companies and available for inspection — Documents available for inspection” in Appendix V to this prospectus. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.



**INFORMATION ABOUT OUR COMPANY****1. Incorporation of our Company**

Our Company was incorporated on 18 April 2018 as an exempted company with limited liability under the laws of the Cayman Islands.

We have been registered in Hong Kong under Part 16 of the Companies Ordinance as a non-Hong Kong company since 2 April 2019, and our principal place of business in Hong Kong is at 19/F., Beverly House, 93-107 Lockhart Road, Wanchai, Hong Kong. In compliance with the requirements of the Companies Ordinance, Ms. Wan Yin Yee has been appointed as the authorised representative in Hong Kong for the acceptance of service of process and any notice required to be served on our Company in Hong Kong.

Our Company was incorporated in the Cayman Islands and is subject to Cayman Islands law. Its constitution comprises the Memorandum of Association and Articles of Association. A summary of certain relevant parts of its constitution and certain relevant aspects of Cayman Islands Companies Law is set out in “Summary of the Constitution of the Company and Cayman Islands Company Law” in Appendix III to this prospectus.

**2. Changes in share capital of our Company**

- (a) As at the date of incorporation of our Company on 18 April 2018, our authorised share capital was US\$50,000 divided into 500,000,000 Shares having a par value of US\$0.0001 each, with 100,000,000 subscribed shares allotted and issued as fully-paid at par to the initial subscribers, among which 1 Share was allotted and issued to McGrath Tonner Corporate Services Limited (“**McGrath Tonner**”), 49,999,999 Shares were allotted and issued to Sun JH, 1,000,000 Shares were allotted and issued to Leap HJ, 10,000,000 Shares were allotted and issued to Hearty Xi, 6,000,000 Shares were allotted and issued to LYZ Tech, 6,000,000 Shares were allotted and issued to Super XY, 6,000,000 Shares were allotted and issued to Wonder H, 6,000,000 Shares were allotted and issued to Laud HJ, 5,000,000 Shares were allotted and issued to LHTH Tech, 5,000,000 Shares were allotted and issued to Optimism YJ, 3,000,000 Shares were allotted and issued to Good CH, and 2,000,000 Shares were allotted and issued to Knowledge ZH;
- (b) On the same date, McGrath Tonner as vendor transferred the 1 Share to Sun JH as purchaser at nil consideration; and

Immediately after the Capitalisation Issue and the Global Offering (without taking into account any Shares which may be allotted and issued upon exercise of the Over-allotment Option or the options to be granted under the Share Option Scheme), the authorised share capital of our Company will be US\$50,000 divided into 500,000,000 Shares, of which 400,000,000 Shares will be issued, fully paid or credited as fully paid.

Other than pursuant to the exercise of the Over-allotment Option and any options to be granted under the Share Option Scheme, or the exercise of the general mandate referred to in “Information about our Company — 3. Resolutions in writing of our Shareholders passed on 19 June 2020” in this Appendix below, our Directors at present have no intention to issue to any party any of the authorised but unissued share capital of our Company, and, without the prior approval of the Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of our Company.

Save as disclosed herein and in “History, Reorganisation and corporate structure”, there has been no alteration in the share capital of our Company since its incorporation.

Our company has no founder shares, management shares or deferred shares.

### 3. Resolutions in writing of our Shareholders passed on 19 June 2020

Pursuant to the written resolutions passed by our Shareholders on 19 June 2020, it was resolved that, among other matters:

- (a) the Articles of Association were conditionally approved and adopted with effect from the Listing Date;
- (b) conditional on: (A) the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus; (B) the Offer Price having been determined; (C) the execution and delivery of the Underwriting Agreements on or before the date as mentioned in this prospectus; and (D) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and not being terminated in accordance with the terms of the Underwriting Agreements or otherwise, in each case on or before the day falling 30 days after the date of this prospectus:
  - (i) the Global Offering and the Over-allotment Option were approved and our Directors were authorised to allot, issue and sale of the Offer Shares pursuant to the Global Offering and such number of Shares as may be required to be allotted, issued and sold upon the exercise of the Over-allotment Option;
  - (ii) the rules of the Share Option Scheme, the principal terms of which are set out in “Other information — 15. Share Option Scheme” in this Appendix, were approved and adopted and our Directors were authorised to approve any amendments to the rules of the Share Option Scheme as may be acceptable or not objected to by the Stock Exchange, and at our Directors’ absolute discretion to grant options to subscribe for Shares thereunder and to allot, issue and deal with Shares pursuant to the exercise of options which may be granted under the Share Option Scheme and to take all such steps as may be necessary, desirable or expedient to implement the Share Option Scheme;
  - (iii) conditional on the share premium account of our Company being credited as a result of the Global Offering, our Directors were authorised to capitalise US\$22,400 standing to the credit of the share premium account of our Company by applying such sum in paying up in full at par 224,000,000 Shares for allotment and issue to holders of Shares whose names appear on the register of members of our Company in proportion (as nearly as possible without involving fractions so that no fraction of a Share shall be allotted and issued) to their then existing holdings in our Company and so that the Shares to be allotted and issued pursuant to this resolution should rank *pari passu* in all respects with the then existing issued Shares and our Directors were authorised to give effect to such capitalisation;

- (iv) a general unconditional mandate was granted to our Directors to exercise all powers of our Company to allot, issue, sell and deal with, otherwise than by way of rights issue, scrip dividend schemes or similar arrangements providing for allotment of Shares in lieu of the whole or in part of any dividend in accordance with the Articles, or pursuant to the exercise of any options to be granted under the Share Option Scheme, or under the Global Offering or the Capitalisation Issue or pursuant to the exercise of the Over-allotment Option, an aggregate number of Shares not exceeding 20% of the aggregate number of Shares in issue immediately following completion of the Capitalisation Issue and the Global Offering (but excluding any Shares which may be allotted and issued upon exercise of the Over-allotment Option and the options to be granted under the Share Option Scheme) until the conclusion of the next annual general meeting of our Company, or upon the expiry of the period within which our Company is required by any applicable law or the Memorandum and Articles of Association to hold its next annual general meeting, or when it is varied, revoked or renewed by an ordinary resolution of our Shareholders in a general meeting, whichever occurs first;
  - (v) a general unconditional mandate (the “**Repurchase Mandate**”) was granted to our Directors to exercise all powers of our Company to purchase or repurchase Shares on the Stock Exchange or another stock exchange on which the securities of our Company may be listed and recognised by the SFC and the Stock Exchange for this purpose, with an aggregate number of not exceeding 10% of the number of Shares in issue immediately following completion of the Global Offering and the Capitalisation Issue (but excluding any Shares which may be allotted and issued upon exercise of the Over-allotment Option and the options granted or to be granted under the Share Option Scheme), until the conclusion of the next annual general meeting of our Company, or upon the expiry of the period within which our Company is required by any applicable law or the Memorandum and Articles of Association to hold its next annual general meeting, or when it is varied, revoked or renewed by an ordinary resolution of our Shareholders in a general meeting, whichever occurs first; and
  - (vi) the extension of the general mandate to allot, issue and deal with Shares pursuant to sub-paragraph (iv) above to include the number of Shares which may be purchased or repurchased pursuant to sub-paragraph (v) above;
- (d) our Company approved the form and substance of each of the service agreements made between our executive Directors and our Company, and the form and substance of each of the appointment letters made between each of our non-executive Directors and independent non-executive Directors and our Company.

#### 4. Reorganisation

The companies comprising our Group underwent the Reorganisation to rationalise our Group's structure in preparation for the Listing. Following the Reorganisation, our Company became the holding company of our Group. For more details regarding the Reorganisation, please see "History, Reorganisation and corporate structure" and "Contractual Arrangements" in this prospectus.

#### 5. Changes in share capital of subsidiaries and the PRC Operating Entities

The subsidiaries of our Company and the PRC Operating Entities are listed in the Accountants' Report set out in Appendix I to this prospectus.

Except as disclosed in "History, Reorganisation and corporate structure" in this prospectus, there are no changes in the share capital of each of our Company's subsidiaries and the PRC Operating Entities within the two years immediately preceding the date of this prospectus.

#### 6. Further information about our subsidiary in the PRC and the PRC Operating Entities

Our Group has direct and indirect equity interest in Khorgos Entertainment and the PRC Operating Entities. A summary of the corporate information of such entities as at the Latest Practicable Date is set out as follows:

##### (a) *Khorgos Entertainment*

Name of the enterprise:	Khorgos Entertainment Information Technology Company Limited* (霍爾果斯娛科信息技術有限公司), formerly known as Huocheng Entertainment Information Technology Company Limited* (霍城娛科信息技術有限公司)
Registered address:	Room 1203, Building No.1, Kehao Science & Technology Town, Khorgos City, Yili Prefecture, Xinjiang, China
Date of establishment:	20 September 2018
Economic nature:	Limited liability company (wholly foreign-owned enterprise)
Registered shareholder:	Sino-Entertainment (HK)
Registered capital:	RMB1,000,000
Attributable interest to our Group:	100%
Term of operation:	Indefinite term commencing from 20 September 2018

**(b) Dinglian Technology**

Name of the enterprise:	Luocheng Mulao Autonomous County Dinglian Technology Company Limited* (羅城仫佬族自治縣頂聯科技有限責任公司)
Registered address:	Room 1-4, Floor 8, Fortune Plaza, No.4 Deshan Road, Luocheng Dongmen Town, Luocheng Mulao Autonomous County, Hechi City, Guangxi, China
Date of establishment:	2 December 2014
Economic nature:	Limited liability company
Registered shareholders:	Mr. Sui and other shareholders <sup>(1)</sup>
Registered capital:	RMB5,000,000
Attributable interest to our Group:	100%
Term of operation:	Indefinite term commencing from 2 December 2014

**(c) Khorgos Dinglian**

Name of the enterprise:	Khorgos Dinglian Interactive Network Technological Company Limited* (霍爾果斯頂聯互動網絡科技有限公司)
Registered address:	No.102, Yili Surun Plastic Products Co., Ltd. Office Building, East of Jiaxi Pipe Industry Co., Ltd., North District, Jiangsu Industrial Park, Qingshuihe Town, Huocheng County, Yili Prefecture, Xinjiang, China
Date of establishment:	19 July 2017
Economic nature:	Limited liability company
Registered shareholder:	Dinglian Technology
Registered capital:	RMB1,000,000
Attributable interest to our Group:	100%
Term of operation:	Indefinite term commencing from 19 July 2017

**(d) Beihai Dinglian**

Name of the enterprise:	Beihai Dinglian Technology Company Limited* (北海頂聯科技有限公司)
Registered address:	Room C01, 4th Floor, Block 1, Guang Xi Bei Tou Hao Yuan Real Estate Co., Ltd, No. 23 Jilin Road, Beihai City Industrial Park, Guangxi, China
Date of establishment:	28 September 2017
Economic nature:	Limited liability company
Registered shareholder:	Dinglian Technology
Registered capital:	RMB1,000,000
Attributable interest to our Group:	100%
Term of operation:	28 September 2017 to 27 September 2037

*Note:*

- (1) Dinglian Technology was owned as to 50% by Mr. Sui, 10% by Mr. Huang Xin, 6% by Mr. Liang Yuezhong, 6% by Ms. Shen Shiyin, 6% by Mr. Liang Hanjun, 6% by Mr. Wu Lihui, 5% by Mr. Liang Hong, 5% by Mr. Ou Yajie, 3% by Mr. Gao Changhai, and 2% by Mr. Ke Zhenhua and 1% by Mr. Li.

**7. Securities repurchase mandate**

This paragraph includes information required by the Stock Exchange to be included in this prospectus concerning the repurchase by our Company of its own securities.

**(a) Shareholders' approval**

All proposed repurchases of securities (which must be fully paid up in the case of shares) by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholders, either by way of general mandate or by specific approval of a particular transaction.

A resolution in writing was passed by our Shareholders on 19 June 2020, pursuant to which a general unconditional mandate (i.e. the Repurchase Mandate) was granted to our Directors authorising the purchase or repurchase of such number of Shares by our Company on the Stock Exchange or another stock exchange on which the securities of our Company may be listed and recognised by the SFC and the Stock Exchange for this purpose, with an aggregate number of not exceeding 10% of the aggregate number of Shares in issue immediately following completion of the Global Offering and the Capitalisation Issue (but excluding any Shares which may be allotted and issued upon exercise of the Over-allotment Option and the options to be granted under the Share Option Scheme), until the conclusion of the next annual general meeting of our Company, or

upon the expiry of the period within which our Company is required by any applicable law or the Memorandum and Articles of Association to hold its next annual general meeting, or when it is varied, revoked or renewed by an ordinary resolution of our Shareholders in a general meeting, whichever occurs first (the “**Relevant Period**”).

*(b) Source of funds*

Repurchases must be funded out of funds legally available for the purpose in accordance with the Memorandum and Articles of Association, the Listing Rules, the Cayman Islands Companies Law and the applicable laws and regulations of the Cayman Islands. A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange. Under Cayman Islands laws, any repurchases by our Company may be made out of profits of our Company, or out of sums standing to the credit of the share premium accounts, or out of the proceeds of an issue of new Shares made for the purpose of the repurchase or, if authorised by the Memorandum and Articles of Association and subject to the Cayman Islands Companies Law, out of capital, and, in the case of any premium payable on the repurchase, out of either or both of the profits or from sums standing to the credit of its share premium account or, if authorised by its Memorandum and Articles of Association and subject to the Cayman Islands Companies Law, out of capital.

*(c) Reasons for repurchases*

Our Directors believe that the ability to repurchase our Shares is in the best interest of our Company and our Shareholders as a whole. Such repurchases may, depending on market conditions and funding arrangements at the time, result in an increase in the net assets and/or earnings per Share. Our Directors have sought the Repurchase Mandate to give our Company the flexibility to do so if and when appropriate. The number of Shares to be repurchased on any occasion and the price and other terms upon which the same are repurchased will be decided by our Directors at the relevant time, having regard to the circumstances then prevailing and such repurchases will only be made if our Directors believe that such repurchases will benefit our Company and our Shareholders as a whole.

*(d) Funding of repurchases*

In repurchasing securities, our Company may only apply funds legally available for such purpose in accordance with the Memorandum and Articles of Association, the Listing Rules, the Cayman Islands Companies Law and the applicable laws and regulations of the Cayman Islands.

On the basis of the current financial position of our Group as disclosed in this prospectus and taking into account the current working capital position of our Group, our Directors consider that, if the repurchases under the Repurchase Mandate were to be carried out in full at any time during the Relevant Period, it might have a material adverse impact on the working capital and/or the gearing position of our Group as compared with the position disclosed in this prospectus. However, our Directors do not propose to exercise the Repurchase Mandate to such extent as would, in the circumstances, have a material adverse impact on the working capital and/or the gearing position of our Group which in the opinion of our Directors are from time to time appropriate for our Group.

(e) *General*

The exercise in full of the Repurchase Mandate, on the basis of 400,000,000 Shares in issue immediately after the Global Offering and the Capitalisation Issue (but excluding any Shares which may be allotted and issued upon exercise of the Over-allotment Option and the options to be granted under the Share Option Scheme), would result in up to 40,000,000 Shares being repurchased by our Company during the Relevant Period.

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their close associate currently intends to sell any Shares to our Company or our subsidiaries. No core connected person of our Company has notified our Company that he/she/it has any present intention to sell Shares to our Company, or has undertaken not to do so if the Repurchase Mandate is exercised.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Memorandum and Articles of Association, the Listing Rules, the Cayman Islands Companies Law and the applicable laws and regulations of the Cayman Islands.

If, as a result of a repurchase of Shares, a Shareholder's proportionate interest in the voting rights of our Company increases, such increase will be treated as an acquisition for the purpose of the Code on Takeovers and Mergers (the "Takeovers Code"). Our Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate.

No purchase of Shares has been made by our Company within six months prior to the date of the prospectus.

Our Directors shall not exercise the Repurchase Mandate if the repurchase would result in the number of Shares which are in the hands of the public falling below 25% of the total number of Shares in issue (or such other percentage as may be prescribed as the minimum public shareholding under the Listing Rules).

## FURTHER INFORMATION ABOUT THE BUSINESS OF OUR COMPANY

### 8. Summary of material contracts

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of our Group within the two years preceding the date of this prospectus and are or may be material:

- (a) the exclusive option agreement dated 7 November 2018 entered into between Khorgos Entertainment, Dinglian Technology, Mr. Sui, Mr. Li, Mr. Huang Xin, Mr. Liang Yuezhong, Ms. Shen Shiyin, Mr. Liang Hanjun, Mr. Wu Lihui, Mr. Liang Hong, Mr. Ou Yajie, Mr. Gao Changhai and Mr. Ke Zhenhua, pursuant to which Khorgos Entertainment was granted an irrevocable and exclusive right to purchase from Mr. Sui, Mr. Li, Mr. Huang Xin, Mr. Liang



Yuezhong, Ms. Shen Shiyin, Mr. Liang Hanjun, Mr. Wu Lihui, Mr. Liang Hong, Mr. Ou Yajie, Mr. Gao Changhai, and Mr. Ke Zhenhua, all or any part of their equity interests in Dinglian Technology, and an irrevocable and exclusive right to purchase from Dinglian Technology all or any part of its assets, at a nominal price;

- (b) the exclusive business cooperation agreement dated 7 November 2018 entered into between Khorgos Entertainment and Dinglian Technology, pursuant to which Dinglian Technology agreed to, among other things, engage Khorgos Entertainment as its exclusive provider of business support, technical and consulting services in exchange for service fee;
- (c) the share pledge agreement dated 7 November 2018 entered into between Khorgos Entertainment, Dinglian Technology, Mr. Sui, Mr. Li, Mr. Huang Xin, Mr. Liang Yuezhong, Ms. Shen Shiyin, Mr. Liang Hanjun, Mr. Wu Lihui, Mr. Liang Hong, Mr. Ou Yajie, Mr. Gao Changhai and Mr. Ke Zhenhua, pursuant to which Mr. Sui, Mr. Li, Mr. Huang Xin, Mr. Liang Yuezhong, Ms. Shen Shiyin, Mr. Liang Hanjun, Mr. Wu Lihui, Mr. Liang Hong, Mr. Ou Yajie, Mr. Gao Changhai and Mr. Ke Zhenhua pledged all of their equity interests in Dinglian Technology to Khorgos Entertainment;
- (d) the shareholders' rights entrustment agreement dated 7 November 2018 entered into between Khorgos Entertainment, Dinglian Technology, Mr. Sui, Mr. Li, Mr. Huang Xin, Mr. Liang Yuezhong, Ms. Shen Shiyin, Mr. Liang Hanjun, Mr. Wu Lihui, Mr. Liang Hong, Mr. Ou Yajie, Mr. Gao Changhai, and Mr. Ke Zhenhua in relation to the entrustment of shareholders' rights of Dinglian Technology;
- (e) the irrevocable powers of attorney all dated 7 November 2018 executed by Mr. Sui, Mr. Li, Mr. Huang Xin, Mr. Liang Yuezhong, Ms. Shen Shiyin, Mr. Liang Hanjun, Mr. Wu Lihui, Mr. Liang Hong, Mr. Ou Yajie, Mr. Gao Changhai and Mr. Ke Zhenhua respectively, authorising Khorgos Entertainment and any person designated by it to, among other things, exercise all of their rights as registered shareholders of Dinglian Technology;
- (f) the Pre-IPO Investment Agreements;
- (g) the Deed of Indemnity; and
- (h) the Hong Kong Underwriting Agreement.

#### **9. Exemption from requirement of a property valuation report**



For the purpose of Chapter 5 of the Listing Rules, as no single property interest which formed part of our non-property activities had a carrying amount of 15% or more of our total assets, this prospectus is not required to include any valuation report of our property interests.

Pursuant to section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong), this prospectus is exempted from compliance with requirements of section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, which requires a valuation report with respect to all our Group's assets in land or buildings.

## 10. Intellectual property rights of our Group

### (a) Trademark

As of the Latest Practicable Date, we have registered the following trademarks which are material to our business:

No.	Trademark	Registration no.	Validity period	Class <sup>(Note)</sup>	Place of registration	Registered owner
1.	顶联科技	23419522	21 March 2018 to 20 March 2028	35	PRC	Dinglian Technology
2.	顶联科技	23425724	21 March 2018 to 20 March 2028	38	PRC	Dinglian Technology
3.		23419769	7 June 2018 to 6 June 2028	35	PRC	Dinglian Technology
4.	凤凰顶联	27677421	14 November 2018 to 13 November 2028	42	PRC	Dinglian Technology
5.	虚空风暴	27668433	14 November 2018 to 13 November 2028	42	PRC	Dinglian Technology
6.	公主遇险记	27668033	28 November 2018 to 27 November 2028	42	PRC	Dinglian Technology
7.	凤凰顶联	27658639	14 November 2018 to 13 November 2028	38	PRC	Dinglian Technology
8.	 顶联游戏 DINGLIAN GAME	304639825	20 August 2018 to 19 August 2028	35	Hong Kong	Dinglian Technology
9.		304666573	12 September 2018 to 11 September 2028	35	Hong Kong	Dinglian Technology

*Note:*

Class 35: Advertising; business management; business administration; office functions.

Class 38: Telecommunications.

Class 42: Scientific and technological services and research and design relating thereto; industrial analysis and research services; design and development of computer hardware and software.

**(b) Domain name**

As at the Latest Practicable Date, we have registered the following domain names which are material to our business:

No.	Domain name	Registrant	Date of registration	Expiry date
1.	dingliangame.com	Dinglian Technology	15 December 2016	15 December 2022
2.	tgyouxi.com	Dinglian Technology	28 June 2017	28 June 2022
3.	dingliangame.cn	Khorgos Dinglian	25 July 2017	25 July 2022
4.	bhdinglian.com	Beihai Dinglian	18 October 2017	18 October 2022

**(c) Copyright**

As at the Latest Practicable Date, we own the following copyrights which are material to our business:

No.	Copyright	Place of registration	Registration no.	Date of registration	Registered owner
1.	公主遇險記遊戲軟件V1.0	PRC	2019SR0765423	23 July 2019	Khorgos Dinglian
2.	頂聯(服務端) SDK軟件V3.2	PRC	2017SR579332	20 October 2017	Dinglian Technology
3.	頂聯SDK軟件 (Android版) V3.2	PRC	2017SR579550	20 October 2017	Dinglian Technology
4.	頂聯SDK軟件 (IOS版) V3.2	PRC	2017SR579529	20 October 2017	Dinglian Technology
5.	英靈學徒遊戲軟件 V1.0	PRC	2017SR643687	23 November 2017	Dinglian Technology
6.	刀劍忘機遊戲軟件 V1.0.0	PRC	2017SR733453	26 December 2017	Dinglian Technology
7.	醉計三國遊戲軟件 V1.0.0	PRC	2018SR213771	28 March 2018	Dinglian Technology
8.	虛空風暴遊戲軟件 1.0	PRC	2019SR0775312	25 July 2019	Khorgos Dinglian
9.	虛空守衛遊戲軟件 V1.0	PRC	2017SR656580	30 November 2017	Khorgos Dinglian

**11. Connected transactions and related party transactions**

Except as disclosed in note 30 to the Accountants' Report, the text of which is set out in Appendix I to this prospectus, during the two years immediately preceding the date of this prospectus, our Company has not engaged in any other material connected transactions or related party transactions.

**FURTHER INFORMATION ABOUT DIRECTORS AND SHAREHOLDERS****12. Directors***(a) Disclosure of interests of our Directors*

- (i) Each of Mr. Sui, Mr. Li and Mr. Huang Zhigang is interested in the Reorganisation, the Pre-IPO Investments and the transactions as contemplated under the material contracts as set out in "Further information about the business of our Company — 8. Summary of material contracts" in this Appendix.
- (ii) Except as disclosed in this prospectus, none of our Directors or their associates were engaged in any dealings with our Group during the two years immediately preceding the date of this prospectus.

*(b) Particulars of Directors' service contracts**Executive Directors*

Each of our executive Directors has entered into a service contract with our Company for a term of three years commencing from the Listing Date until terminated by not less than three months' notice in writing served by either party on the other. Each of our executive Directors is entitled to their respective basic salaries set out below. The current basic annual salaries of our executive Directors payable under their service contracts are as follows:

Name	Approximate annual salary (RMB)
Sui Jiaheng (隋嘉恒)	396,000
Li Haijun (李海軍)	300,000
He Shaoning (何紹寧)	300,000

*Non-executive Directors*

Our non-executive Director has been appointed for an initial term of three years commencing from the Listing Date until terminated by either party giving not less than three months' written notice to the other. The appointment is subject to the provisions of the Articles with regard to vacation of office of Directors, removal and retirement by rotation of Directors. Our non-executive Directors is entitled to a director's fee of RMB48,000 per annum. Except for directors' fees, our non-executive Director is not expected to receive any other remuneration for holding his office as an non-executive Director.

*Independent non-executive Directors*

Each of our independent non-executive Directors has been appointed for an initial term of three years commencing from the Listing Date until terminated by either party giving not less than three months' written notice to the other. The appointments are subject to the provisions of the Articles with regard to vacation of office of Directors, removal and retirement by rotation of Directors. Each of our independent non-executive Directors is entitled to a director's fee of RMB48,000 per annum. Except for directors' fees, none of our independent non-executive Directors is expected to receive any other remuneration for holding their office as an independent non-executive Director.

Except as aforesaid, none of our Directors has or is proposed to have a service contract with our Company or any of our subsidiaries other than contracts expiring or determinable by our employer within one year without the payment of compensation (other than statutory compensation).

**(c) *Directors remuneration***

- (i) The aggregate emoluments paid and benefits in kind granted by our Group to our Directors in respect of FY2017, FY2018 and FY2019 were approximately RMB215,000, RMB239,000 and RMB460,000, respectively.
- (ii) Under the arrangements currently in force, the aggregate emoluments (excluding discretionary bonus) payable by our Group to and benefits in kind receivable by our Directors (including our non-executive Director and our independent non-executive Directors in their respective capacity as Directors) for the year ending 31 December 2020 are expected to be approximately RMB712,000.
- (iii) None of our Directors or any past directors of any member of our Group has been paid any sum of money for FY2017, FY2018 and FY2019 (i) as an inducement to join or upon joining our Group, or (ii) for loss of office as a director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group.
- (iv) There has been no arrangement under which a Director has waived or agreed to waive any emoluments for FY2017, FY2018 and FY2019.

**(d) *Interests and/or short positions of Directors in the shares, underlying shares or debentures of our Company***

Immediately after the Capitalisation Issue and the Global Offering (without taking into account any Shares which may be allotted and issued upon exercise of the Over-allotment Option or the options to be granted under the Share Option Scheme), the interests and/or short positions of our Directors and the chief executive of our Company in the shares, underlying shares or debentures of our Company (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions in which they are taken or deemed to have taken under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by

Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules, in each case once our Shares are listed, will be as follows:

<b>Name of Director</b>	<b>Capacity/nature of interest</b>	<b>Number of Shares<sup>(1)</sup></b>	<b>Approximate percentage of interest in our Company</b>
Mr. Sui <sup>(2)</sup>	Interest in a controlled corporation	162,000,000(L)	40.50%
Mr. Huang Zhigang <sup>(3)</sup>	Interest in a controlled corporation	22,740,000(L)	5.68%
Mr. Li <sup>(4)</sup>	Interest in a controlled corporation	3,240,000(L)	0.81%

*Notes:*

- (1) The letter “L” denotes a person’s long position in our Shares.
- (2) Mr. Sui is the sole shareholder of Sun JH which holds 162,000,000 Shares. Therefore, Mr. Sui is deemed to be interested in Sun JH’s interest in our Shares pursuant to the SFO.
- (3) Mr. Huang Zhigang is the sole shareholder of Together Win which, pursuant to the SFO, is a control entity of HX Tech and LYZ Tech. HX Tech and LYZ Tech together hold in aggregate 22,740,000 Shares. Therefore, Mr. Huang Zhigang is deemed to be interested in Together Win’s interest in our Shares pursuant to the SFO.
- (4) Mr. Li is the sole shareholder of Leap HJ which holds 3,240,000 Shares. Therefore, Mr. Li is deemed to be interested in Leap HJ’s interest in our Shares, pursuant to the SFO.

### 13. Interest discloseable under the SFO and substantial shareholders

So far as our Directors are aware, immediately after the Capitalisation Issue and the Global Offering (without taking into account any Shares which may be allotted and issued upon exercise of the Over-allotment Option or the options to be granted under the Share Option Scheme), other than the three Directors of our Company whose interests are disclosed under “Further information about Directors and Shareholders — 12. Directors” in this Appendix, the following persons will have an interest or a short position in our Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will be, directly or indirectly, interested in 10% or more of the issued voting shares of any other member of our Group:

<b>Name of Shareholder</b>	<b>Capacity/nature of interest</b>	<b>Number of Shares<sup>(1)</sup></b>	<b>Approximate percentage of shareholding</b>
Sun JH	Beneficial owner	162,000,000(L)	40.5%

*Notes:*

- (1) The letter “L” denotes a person’s long position in our Shares.

**14. Disclaimers**

Except as disclosed in this prospectus:

- (a) our Directors are not aware of any person (not being a Director or chief executive of our Company) who immediately after the Capitalisation Issue and the Global Offering (without taking into account any Shares which may be allotted and issued upon exercise of the Over-allotment Option or the options to be granted under the Share Option Scheme) will have an interest or a short position in our Shares and underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who will be, directly or indirectly, interested in 10% or more of the issued voting shares of any other member of our Group;
- (b) none of our Directors has any interest or short position in any of the shares, underlying shares or debentures of our Company or any associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions in which they are taken or is deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules, in each case once our Shares are listed;
- (c) none of our Directors nor any of the parties listed in “Other information — 23. Qualifications of experts” in this Appendix has been interested in the promotion of, or has any direct or indirect interest in any assets which have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to our Company or any of the subsidiaries of our Company, or are proposed to be acquired or disposed of by or leased to our Company or any other member of our Group nor will any Director apply for the Offer Shares either in his own name or in the name of a nominee;
- (d) none of our Directors nor any of the parties listed in “Other information — 23. 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; and
- (e) except in connection with the Underwriting Agreements, none of the parties listed in “Other information — 23. Qualifications of experts” in this Appendix:
  - (i) is interested legally or beneficially in any securities of any member of our Group; or
  - (ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

**OTHER INFORMATION****15. Share Option Scheme**

The following is a summary of the principal terms of the Share Option Scheme conditionally adopted by the written resolutions of the shareholders of our Company passed on 19 June 2020.

*(a) Purpose*

The Share Option Scheme is a share incentive scheme and is established to recognise and acknowledge the contributions that the Eligible Participants (as defined in paragraph (b) below) have had or may have made to our Group. The Share Option Scheme will provide the Eligible Participants an opportunity to have a personal stake in our Company with the view to achieving the following objectives:

- (i) motivating the Eligible Participants to optimise their performance efficiency for the benefit of our Group; and
- (ii) attracting and retaining or otherwise maintaining ongoing business relationships with the Eligible Participants whose contributions are or will be beneficial to the long-term growth of our Group.

*(b) Who may join*

Our Board may, at its discretion, offer to grant an option to subscribe for such number of new Shares as our Board may determine at an exercise price determined in accordance with paragraph (f) below to the following persons (the “**Eligible Participants**”):

- (i) any full-time or part-time employees, executives or officers of our Company or any of its subsidiaries;
- (ii) any Directors (including non-executive Directors and independent non-executive Directors) of our Company or any of its subsidiaries;
- (iii) any advisers, consultants, suppliers, customers and agents to our Company or any of its subsidiaries; and
- (iv) such other persons who, in the sole opinion of our Board, will contribute or have contributed to our Group, the assessment criteria of which are:
  - (aa) contribution to the development and performance of our Group;
  - (bb) quality of work performed for our Group;
  - (cc) initiative and commitment in performing his/her duties; and
  - (dd) length of service or contribution to our Group.



(c) *Acceptance of an offer of options*

An option shall be deemed to have been granted and accepted by the grantee and to have taken effect when the document constituting acceptance of the option duly signed by the grantee, together with a remittance in favour of our Company of HK\$1.00 by way of consideration for the grant thereof is received by our Company on or before the relevant acceptance date. Such payment shall in no circumstances be refundable. Any offer to grant an option to subscribe for Shares may be accepted in respect of less than the number of Shares for which it is offered provided that it must be accepted in respect of a board lot for dealing in Shares on the Stock Exchange or an integral multiple thereof and such number is clearly stated in the document constituting acceptance of the option. To the extent that the offer to grant an option is not accepted by any prescribed acceptance date, it shall be deemed to have been irrevocably declined.

Subject to paragraphs (l), (m), (n), (o) and (p), an option shall be exercised in whole or in part and, other than where it is exercised to the full extent outstanding, shall be exercised in integral multiples of such number of Shares as shall represent one board lot for dealing in Shares on the Stock Exchange for the time being, by the grantee by giving notice in writing to our Company stating that the option is thereby exercised and the number of Shares in respect of which it is exercised. Each such notice must be accompanied by a remittance for the full amount of the exercise price for Shares in respect of which the notice is given.

Within 21 days after receipt of the notice and the remittance and, where appropriate, receipt of the certificate by the auditors of our Company or the approved independent financial adviser as the case may be pursuant to paragraph (r), our Company shall allot and issue the relevant number of Shares to the grantee credited as fully paid and issue to the grantee certificates in respect of the Shares so allotted.

The exercise of any option shall be subject to our Shareholders in a general meeting approving any necessary increase in the authorised share capital of our Company.

(d) *Maximum number of Shares*

The maximum number of Shares in respect of which options may be granted (including Shares in respect of which options, whether exercised or still outstanding, have already been granted) under the Share Option Scheme and under any other share option schemes of our Company must not in aggregate exceed 10% of the total number of Shares in issue on the Listing Date, being 40,000,000 Shares (the “**Scheme Limit**”), excluding for this purpose Shares which would have been issuable pursuant to options which have lapsed in accordance with the terms of the Share Option Scheme (or any other share option schemes of our Company). Subject to the issue of a circular by our Company and the approval of our Shareholders in general meeting and/or such other requirements prescribed under the Listing Rules from time to time, the Board may:

- (i) renew this limit at any time to 10% of the Shares in issue (the “**New Scheme Limit**”) as of the date of the approval by our Shareholders in a general meeting; and/or
- (ii) grant options beyond the Scheme Limit to Eligible Participants specifically identified by our Board. The circular issued by our Company to our Shareholders shall contain a generic description of the specified Eligible Participants who may be granted such options, the number and terms of the options to be granted, the purpose of granting options to the specified Eligible Participants with an explanation as to how the

options serve such purpose, the information required under Rule 17.02(2)(d) and the disclaimer required under Rule 17.02(4) of the Listing Rules.

Notwithstanding the foregoing, the Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of our Company at any time shall not exceed 30% of the Shares in issue from time to time (the “**Maximum Limit**”). No options shall be granted under any schemes of our Company (including the Share Option Scheme) if this will result in the Maximum Limit being exceeded. The maximum number of Shares in respect of which options may be granted shall be adjusted, in such manner as the auditors of our Company or an approved independent financial adviser shall certify to be appropriate, fair and reasonable in the event of any alteration in the capital structure of our Company in accordance with paragraph (r) below whether by way of capitalisation issue, rights issue, sub-division or consolidation of shares or reduction of capital of our Company but in no event shall exceed the limit prescribed in this paragraph.

(e) *Maximum number of options to any one individual*

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option schemes of our Company (including both exercised, outstanding options and Shares which were the subject of options which have been granted and accepted under the Share Option Scheme and any other share option schemes of our Company but subsequently canceled (the “**Canceled Shares**”)) to each Eligible Participant in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue as of the date of grant. Any further grant of options in excess of this 1% limit shall be subject to:

- (i) the issue of a circular by our Company to our Shareholders containing the identity of the Eligible Participant, the numbers of and terms of the options to be granted (and options previously granted to such participant), the information as required under Rule 17.02(2)(d) and the disclaimer required under Rule 17.02(4) of the Listing Rules; and
- (ii) the approval of our Shareholders in general meeting and/or other requirements prescribed under the Listing Rules from time to time with such Eligible Participant and his close associates (or his associates if such Eligible Participant is a connected person) abstaining from voting. The numbers and terms (including the exercise price) of options to be granted to such participant must be fixed before our Shareholders’ approval and the date of the Board meeting at which our Board proposes to grant the options to such Eligible Participant shall be taken as the date of grant for the purpose of calculating the exercise price of our Shares. Our Board shall forward to such Eligible Participant an offer document in such form as our Board may from time to time determine or, alternatively, documents accompanying the offer document which state, among other things:
  - (aa) the Eligible Participant’s name, address and occupation/position;
  - (bb) the date on which an option is offered to an Eligible Participant which must be a date on which the Stock Exchange is open for the business of dealing in securities;
  - (cc) the date upon which an offer for an option must be accepted;

- (dd) the date upon which an option is deemed to be granted and accepted in accordance with paragraph (c);
  - (ee) the number of Shares in respect of which the option is offered;
  - (ff) the exercise price and the manner of payment of such price for the Shares on and in consequence of the exercise of the option;
  - (gg) the date of the expiry of the option;
  - (hh) the method of acceptance of the option which shall, unless the Board otherwise determines, be as set out in paragraph (c); and
- (ii) such other terms and conditions (including, without limitation, any minimum period for which an option shall be held before it can be exercised and/or any performance targets which must be achieved before the option can be exercised) relating to the offer of the option which in the opinion of the Board are fair and reasonable but not inconsistent with the Share Option Scheme and the Listing Rules.

(f) *Price of Shares*

The exercise price of a Share in respect of any particular option granted under the Share Option Scheme shall be such price as our Board in its absolute discretion shall determine, except that such price will not be less than the highest of:

- (i) the closing price of the Shares as stated in the Stock Exchange's daily quotation sheets on the date of grant, which must be a day on which the Stock Exchange is open for the business of dealing in securities;
- (ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five Business Days immediately preceding the date of grant; and
- (iii) the nominal value of a Share.

(g) *Granting options to connected persons*

Any grant of options to a Director, chief executive or substantial shareholder of our Company or any of their respective associates is required to be approved by our independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the options). If the Board proposes to grant options to a substantial shareholder or any independent non-executive Director or their respective associates which will result in the number of Shares issued and to be issued upon exercise of options granted and to be granted (including options exercised, canceled and outstanding) to such person under the Share Option Scheme and any other share option schemes of our Company in the 12-month period up to and including the date of such grant:

- (i) representing in aggregate over 0.1% of our Shares in issue; and

- (ii) having an aggregate value in excess of HK\$5 million or such other sum as may be from time to time provided under the Listing Rules, based on the closing price of the Shares as stated in the daily quotation sheets of the Stock Exchange at the date of each grant,

such further grant of options will be subject to the approval of our independent non-executive Directors as referred to in this paragraph, the issue of a circular by our Company and the approval of our Shareholders in general meeting on a poll at which such proposed grantees, their associates and all core connected persons of our Company shall abstain from voting in favour, and/or such other requirements prescribed under the Listing Rules from time to time.

The circular to be issued by our Company to our Shareholders pursuant to the above paragraph shall contain the following information:

- (i) the details of the number and terms (including the exercise price) of the options to be granted to each selected Eligible Participant, which must be fixed before our Shareholders' meeting and the date of our Board meeting for proposing such further grant shall be taken as the date of grant for the purpose of calculating the exercise price of such options;
- (ii) a recommendation from our independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the options) to our independent Shareholders as to voting;
- (iii) the information required under Rule 17.02(2)(c) and (d) and the disclaimer required under Rule 17.02(4) of the Listing Rules; and
- (iv) the information required under Rule 2.17 of the Listing Rules.

*(h) Restrictions on the times of grant of Options*

An offer of the grant of an option may not be made after inside information has come to the knowledge of our Company until the information has been announced in accordance with the Listing Rules. In particular, no options may be granted during the period commencing one month immediately preceding the earlier of:

- (i) the date of our Board meeting (as such date is first notified to the Stock Exchange under the Listing Rules) for approving our Company's results for any year, half-year, quarterly or other interim period (whether or not required under the Listing Rules); and
- (ii) the deadline for our Company to publish an announcement of the results for any year or half-year under the Listing Rules, or quarterly or any other interim period (where our Company has elected to publish them),

and ending on the actual date of publication of the results announcement for such year, half year, quarterly or interim period (as the case may be).

(i) *Rights are personal to grantee*

An option is personal to the grantee and shall not be transferable or assignable. No grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest (legal or beneficial) in favour of any third party over or in relation to any option or attempt so to do (except that the grantee may nominate a nominee in whose name those Shares issued pursuant to the Share Option Scheme may be registered). Any breach of the foregoing shall entitle our Company to cancel any outstanding options or any part thereof granted to such grantee.

(j) *Time of exercise of option and duration of the Share Option Scheme*

An option may be exercised in accordance with the terms of the Share Option Scheme at any time after the date upon which the option is deemed to be granted and accepted and prior to the expiry of 10 years from that date. The period during which an option may be exercised will be determined by our Board in its absolute discretion, except that no option may be exercised more than 10 years after it has been granted. No option may be granted more than 10 years after the Listing Date. Subject to earlier termination by our Company in general meeting or by our Board, the Share Option Scheme shall be valid and effective for a period of 10 years from the Listing Date.

(k) *Performance target*

A grantee may be required to achieve certain performance targets as our Board may then specify before any options granted under the Share Option Scheme can be exercised.

(l) *Rights on ceasing employment/death*

If the grantee of an option ceases to be an Eligible Participant:

- (i) by any reason other than death, ill-health, injury, disability or termination of his relationship with our Company and/or any of its subsidiaries on one of more of the grounds specified in paragraph (m) below, the option to the extent not already exercised on the date of such cessation (which date shall be, in relation to a grantee who is an Eligible Participant by reason of his employment with our Group or any related entities, the last actual working day with our Group or the related entity whether salary is paid in lieu of notice or not) shall lapse automatically on the date of cessation; or
- (ii) by reason of death, ill-health, injury or disability (all evidenced to the satisfaction of our Board) and none of the events which would be a ground for termination of his relationship with our Group under paragraph (m) has occurred, the grantee or his personal representative(s) may exercise the option within a period of 12 months (or such longer period as our Board may determine) from the date of cessation of being an Eligible Participant or death to exercise the options in full (to the extent not already exercised).

*(m) Rights on dismissal*

If the grantee of an option ceases to be an Eligible Participant on the grounds that he has been guilty of serious misconduct, or has become insolvent, bankrupt or has made any arrangements or compromises with his creditors generally, or has been convicted of any criminal offense involving his integrity or honesty, his option will lapse and not be exercisable on and after the date of termination of his employment.

*(n) Rights on takeover*

If a general offer is made to all our Shareholders (or all such Shareholders other than the offeror and/or any person controlled by the offeror and/or any person acting in concert with the offeror (as defined in the Takeovers Code)) and such offer becomes or is declared unconditional during the option period of the relevant option, the grantee of an option shall be entitled to exercise the option in full (to the extent not already exercised) at any time within 14 days after the date on which the offer becomes or is declared unconditional.

*(o) Rights on winding-up*

In the event that a notice is given by our Company to its members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up our Company, our Company shall forthwith give notice thereof to all grantees and thereupon, each grantee (or his legal personal representative(s)) shall be entitled to exercise all or any of his options (to the extent not already exercised) at any time not later than two Business Days prior to the proposed general meeting of our Company referred to above by giving notice in writing to our Company, accompanied by a remittance for the full amount of the aggregate exercise price for Shares in respect of which the notice is given, whereupon our Company shall as soon as possible and, in any event, no later than the Business Day immediately prior to the date of the proposed general meeting, allot the relevant Shares to the grantee credited as fully paid.

*(p) Rights on compromise or arrangement between our Company and its members or creditors*

If a compromise or arrangement between our Company and its members or creditors is proposed for the purposes of a scheme for the reconstruction of our Company or its amalgamation with any other companies, our Company shall give notice to all the grantees of the options on the same day as it gives notice of the meeting to its members and/or creditors summoning the meeting to consider such a compromise or arrangement, and thereupon each grantee shall be entitled to exercise all or any of his options in whole or in part at any time prior to 12:00 noon (Hong Kong time) on the Business Day immediately preceding the date of the meeting directed to be convened by the relevant court for the purposes of considering such compromise or arrangement and if there are more than one meeting for such purpose, the date of the first meeting.

With effect from the date of such meeting, the rights of all grantees to exercise their respective options shall forthwith be suspended. Upon such compromise or arrangement becoming effective, all options shall, to the extent that they have not been exercised, lapse and determine. If for any reason such compromise or arrangement does not become effective and is terminated or lapses, the rights of grantees to exercise their respective options shall with effect from such termination be restored in full (but only upon the extent not already exercised).

(q) *Ranking of Shares*

Our Shares to be allotted upon the exercise of an option will not carry voting rights until completion of the registration of the grantee (or such other person nominated by the grantee) as the holder thereof. Subject to the aforesaid, Shares allotted and issued on the exercise of options will rank pari passu in all respects with and shall have the same voting, dividend, transfer and other rights including those arising on liquidation of our Company as attached to the other fully-paid Shares in issue on the date of issue, except that they will not rank for any rights for dividend or other distribution declared or recommended or resolved to be paid or made by reference to a record date falling on or before the date of allotment.

(r) *Effect of alterations to capital*

In the event of any alteration in the capital structure of our Company whilst any option may become or remains exercisable, whether by way of capitalisation issue, rights issue, consolidation, subdivision or reduction of capital of our Company, such corresponding alterations (if any) shall be made in the number of Shares subject to any outstanding options and/or the exercise price per Share of each outstanding option as the auditors of our Company or an independent financial adviser shall certify in writing to our Board to be in their/his opinion fair and reasonable in compliance with Rule 17.03(13) of the Listing Rules and the note thereto and the supplementary guidance attached to the letter from the Stock Exchange dated 5 September 2005 to all issuers relating to share option schemes. The capacity of the auditors of our Company or the approved independent financial adviser, as the case may be, in this paragraph is that of experts and not arbitrators and their certificate shall, in the absence of manifest error, be final and conclusive and binding on our Company and the grantees.

Any such alterations will be made on the basis that a grantee shall have the same proportion of the equity capital of our Company (as interpreted in accordance with the supplementary guidance attached to the letter from the Stock Exchange dated 5 September 2005 to all issuers relating to share option schemes) for which any grantee of an option is entitled to subscribe pursuant to the options held by him before such alteration provided that no such alteration shall be made if the effect of which would be to enable a Share to be issued at less than its nominal value. The issue of securities as consideration in a transaction is not to be regarded as a circumstance requiring any such alterations.

(s) *Expiry of option*

An option shall lapse automatically and shall not be exercisable (to the extent not already exercised) on the earliest of:

- (i) the date of expiry of the option as may be determined by our Board;
- (ii) the expiry of any of the periods referred to in paragraphs (l), (n), (o) or (p);
- (iii) the date upon which the scheme of arrangement of our Company referred to in paragraph (p) becomes effective;
- (iv) subject to paragraph (o), the date of commencement of the winding-up of our Company;

- (v) the date upon which the grantee ceases to be an Eligible Participant by reason of such grantee's termination of his relationship on the grounds that he has been guilty of serious misconduct, or has become insolvent, bankrupt or has made arrangements or compromises with his creditors generally, has been convicted of any criminal offense involving his integrity or honesty or on any other ground as determined by the Board that would warrant the termination of his employment at common law or pursuant to any applicable laws or under the grantee's service contract with the group. A resolution of our Board to the effect that the employment of a grantee has or has not been terminated on one or more of the grounds specified in this paragraph shall be conclusive; or
- (vi) the date upon which our Board shall exercise our Company's right to cancel the option at any time after the grantee commits a breach of paragraph (i) above or the options are canceled in accordance with paragraph (u) below.

(t) *Alteration of the Share Option Scheme*

The Share Option Scheme may be altered in any respect by resolution of our Board except that:

- (i) any alteration to the advantage of the grantees or the Eligible Participants (as the case may be) in respect of the matters contained in Rule 17.03 of the Listing Rules; or
- (ii) any material alteration to the terms and conditions of the Share Option Scheme or any change to the terms of options granted;

shall first be approved by our Shareholders in a general meeting provided that if the proposed alteration shall adversely affect any option granted or agreed to be granted prior to the date of alteration, such alteration shall be further subject to the grantees' approval in accordance with the terms of the Share Option Scheme. The amended terms of the Share Option Scheme must still comply with Chapter 17 of the Listing Rules and any change to the authority of the Board in relation to any alteration to the terms of the Share Option Scheme must be approved by Shareholders in general meeting.

(u) *Cancellation of Options*

Any cancellation of options granted but not exercised must be approved by the grantees of the relevant options in writing. For the avoidance of doubt, such approval is not required in the event that any option is canceled pursuant to paragraph (i).

(v) *Termination of the Share Option Scheme*

Our Company may by resolution in a general meeting or our Board may at any time terminate the Share Option Scheme and in such event no further option shall be offered but the provisions of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any option granted prior thereto or otherwise as may be required in accordance with the provisions of the Share Option Scheme.

Options granted prior to such termination but not yet exercised at the time of termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.



(w) *Administration of our Board*

The Share Option Scheme shall be subject to the administration of our Board whose decision as to all matters arising in relation to the Share Option Scheme or its interpretation or effect (except as otherwise provided therein) shall be final and binding on all parties.

(x) *Conditions of the Share Option Scheme*

The Share Option Scheme is conditional on:

- (i) the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the Shares which may fall to be issued pursuant to the exercise of options to be granted under the Share Option Scheme;
- (ii) the obligations of the Underwriters under the Underwriting Agreement becoming unconditional (including, if relevant, as a result of the waiver of any such condition(s) by the Joint Global Coordinators (for themselves and on behalf of the Underwriters)) and not being terminated in accordance with the terms of the Underwriting Agreement or otherwise;
- (iii) passing of the necessary resolutions by our Shareholders to approve and adopt the rules of the Share Option Scheme and to authorise our Board to grant options under the Share Option Scheme and to allot and issue Shares pursuant to exercise of any options; and
- (iv) the commencement of dealings in our Shares on the Stock Exchange.

If the conditions in paragraph (x) above are not satisfied within six calendar months from the date of approval of the Share Option Scheme by our Shareholders:

- (i) the Share Option Scheme shall forthwith determine;
- (ii) any option granted or agreed to be granted pursuant to the Share Option Scheme and any offer of such a grant shall be of no effect; and
- (iii) no person shall be entitled to any rights or benefits or be under any obligations under or in respect of the Share Option Scheme or any option granted thereunder.

(y) *Disclosure in annual and interim reports*

Our Company will disclose details of the Share Option Scheme in its annual and interim reports including the number of options, date of grant, exercise price, exercise period and vesting period during the financial year/period in the annual/interim reports in accordance with the Listing Rules in force from time to time.

As of the Latest Practicable Date, no option had been granted or agreed to be granted under the Share Option Scheme.

Application has been made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares which may fall to be issued pursuant to the exercise of the options to be granted under the Share Option Scheme, being 40,000,000 Shares in total.

**16. Estate duty, tax and other indemnity**

Mr. Sui and Sun JH (the “**Indemnifiers**”) have entered into the Deed of Indemnity in favour of our Company (for itself and as trustee for the benefit of each of its subsidiaries) (being the material contract (g) referred to in “Further information about the business of our Company — 8. Summary of material contracts” in this Appendix) to provide indemnities on a joint and several basis, in respect of, among other matters:

- (a) any liability for Hong Kong estate duty which might be incurred by any member of our Group by reason of any transfer of property (within the meaning of sections 35 and 43 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong) or the equivalent thereof under the laws of any jurisdiction outside Hong Kong) to any member of our Group at any time on or before the Listing Date;
- (b) any tax liabilities (including all costs, interests, penalties, charges, fines and expenses incidental or relating to the liability to taxation) which might be payable by any member of our Group in respect of any income, profits or gains, transactions, events, matters or things earned, accrued or received, entered into or occurring on or before the Listing Date, whether alone or in conjunction with any other circumstance whenever occurring, and whether or not such tax liabilities are chargeable against or attributable to any other person, firm or company;
- (c) any liabilities which are suffered by our Group in connection with the incidents of non-compliance with applicable laws and requirements referred to in “Business — Legal proceedings and compliance” in this prospectus; and
- (d) any expenses, payments, sums, outgoings, fees, demands, claims, damages, losses, costs (including but not limited to legal and other professional costs), charges, liabilities, fines, penalties in connection with any failure, delay or defects of corporate or regulatory compliance or errors, discrepancies or missing documents in the statutory records of any member of our Group under, or any breach of any provision of, the Companies Ordinance or any other applicable laws, rules or regulations on or before the date on which the Global Offering becomes unconditional.

The Indemnifiers are under no liability under the Deed of Indemnity in respect of any liability:

- (a) to the extent that full provision has been made for such taxation, liability or claim in the audited accounts of any member of our Group for the Track Record Period;
- (b) to the extent that such taxation or liability falling on any of the members of our Group in respect of any accounting period commencing on or after 1 January 2020 and ending on the Listing Date, where such taxation or liability would not have arisen but for some act or omission of, or transaction voluntarily entered into by, any member of our Group (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) without the prior written consent or agreement of the Indemnifiers, other than any such act, omission or transaction:
  - (i) carried out or effected in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets on or before the Listing Date; or
  - (ii) carried out, made or entered into pursuant to a legally binding commitment created on or before the Listing Date or pursuant to any statement of intention made in this prospectus; or

- (c) to the extent that such taxation or liability arises or are incurred as a result of the imposition of taxation as a consequence of any retrospective change in the laws, rules and regulations or the interpretation or practice thereof by the Hong Kong Inland Revenue Department or the taxation authority of the PRC, or any other relevant authority (whether in Hong Kong or the PRC or any other part of the world) coming into force after the date of the Deed of Indemnity or to the extent such liability arises or is increased by an increase in rates of taxation, payments, fines, fees or premium as required by the PRC laws and regulations (as the case may be) after the date of the Deed of Indemnity with retrospective effect (except for the imposition of or an increase in the rate of Hong Kong profits tax or any tax of any part of the world on the profits of companies for the current or any earlier financial period);
- (d) to the extent that the relevant taxation or liability is discharged by another person who is not a member of our Group and that no member of our Group is required to reimburse such person in respect of the discharge of the liability; or
- (e) to the extent that any provision or reserve made for the relevant taxation or liability in the audited accounts of any member of our Group for the Track Record Period which is finally established to be an over-provision or an excessive reserve, in which case the liability of the Indemnifiers (if any) in respect of such taxation or liability shall be reduced by an amount not exceeding such provision or reserve provided that the amount of any such provision or reserve applied referred to in this paragraph to reduce the liability of the Indemnifiers in respect of the relevant taxation or liability shall not be available in respect of any such liability arising thereafter.

## **17. Litigation**

As at the Latest Practicable Date, neither our Company nor any of our subsidiaries was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to our Directors to be pending or threatened against our Company or any of our subsidiaries, that would have a material adverse effect on the results of operations or financial condition of our Company.

## **18. Preliminary expenses**

The preliminary expenses of our Company were approximately US\$4,030 and were paid by our Company.

## **19. Promoters**

- (a) Our Company has no promoter.
- (b) Except as disclosed in this prospectus, within the two years preceding the date of this prospectus, no amount or benefit has been paid or given to the promoters named in sub-paragraph (a) above in connection with the Global Offering or the related transactions described in this prospectus.

## **20. Sole Sponsor's independence**

The Sole Sponsor satisfies the independence criteria applicable to sponsor as set out in Rule 3A.07 of the Listing Rules.

**21. Agency fees or commissions received**

The Underwriters will receive a commission of 4.3% of the aggregate Offer Price in respect of all the Offer Shares. In addition, our Company and the Selling Shareholders may also in our sole discretion pay to the Underwriters or any one of them an incentive fee of not more than 0.4% of the aggregate Offer Price payable for the Offer Shares (including shares to be issued pursuant to the Over-allotment Option). The Sole Sponsor will also receive an aggregate sponsor fee of HK\$5,000,000 in connection with the Listing.

**22. Application for Listing of Shares**

The Sole Sponsor has made an application on behalf of our Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus and any Shares which may be issued upon the exercise of the Over-allotment Option and any options to be granted under the Share Option Scheme.

All necessary arrangements have been made to enable the securities to be admitted into CCASS.

**23. Qualifications of experts**

The qualifications of the experts who have given opinions and/or advice which are contained in this prospectus are as follows:

<b>Name</b>	<b>Qualification</b>
WAG Worldsec Corporate Finance Limited	Licensed under the SFO to conduct Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities
Jingtian & Gongcheng	Qualified legal advisers as to PRC law
Hogan Lovells	International Sanctions counsel
Conyers Dill & Pearman	Cayman Islands attorney-at-law
Deloitte Touche Tohmatsu	Certified public accountants Registered public interest entity auditors
China Insights Industry Consultancy Limited	Industry consultant

**24. Consents of experts**

Each of the experts named in paragraph 23 above has given and has not withdrawn its written consent to the issue of this prospectus with copies of its reports, letters or opinions (as the case may be) and the references to its names or summaries of opinions included herein in the form and context in which they respectively appear.

**25. Binding effect**

This prospectus shall have the effect, if an application is made in pursuance of it, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

**26. Particulars of the Selling Shareholders**

The particulars of the Selling Shareholders and the number of Sale Shares to be sold are set out below:

Name of Selling Shareholder:	LHTH Tech Holding Ltd.
Registered address:	30 de Castro Street, Wickhams Cay 1, P.O. Box 4519 Road Town, Tortola, British Virgin Islands
Date of incorporation:	11 April 2018
Number of Sale Shares to be sold:	14,400,000

Name of Selling Shareholder:	LYZ Tech Holding Ltd.
Registered address:	30 de Castro Street, Wickhams Cay 1, P.O. Box 4519 Road Town, Tortola, British Virgin Islands
Date of incorporation:	11 April 2018
Number of Sale Shares to be sold:	4,800,000

Name of Selling Shareholder:	Knowledge ZH Holding Ltd.
Registered address:	30 de Castro Street, Wickhams Cay 1, P.O. Box 4519 Road Town, Tortola, British Virgin Islands
Date of incorporation:	16 April 2018
Number of Sale Shares to be sold:	4,800,000

Save for Mr. Huang Zhigang who is indirectly interested in 50% of the issued share capital of LYZ Tech, being one of the Selling Shareholders, none of the Directors is interested in the Sale Shares.

**27. Taxation of holders of Shares****(a) Hong Kong**

Dealings in Shares registered on our Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty. The sale, purchase and transfer of Shares are subject to Hong Kong stamp duty, the current rate of which is 0.2% of the consideration or, if higher, the value of the Shares being sold or transferred.

Profits from dealings in the Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

**(b) The Cayman Islands**

Under the present Cayman Islands law, transfers and other dispositions of Shares are exempt from Cayman Islands stamp duty other than in respect of companies that hold an interest in land in the Cayman Islands.

**(c) Consultation with professional advisers**

Intending holders of Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in Shares or exercising any rights attaching to them. It is emphasised that none of our Company, our Directors or the other parties involved in the Global Offering can accept responsibility for any tax effect on, or liabilities of, holders of Shares resulting from their subscription for, purchase, holding or disposal of or dealing in Shares or exercising any rights attaching to them.

**28. Miscellaneous****(a) Except as disclosed herein:****(i) Within two years preceding the date of this prospectus:**

(aa) no share or loan capital of our Company or of any of our subsidiaries has been issued, agreed to be issued or is proposed to be issued fully or partly paid either for cash or for a consideration other than cash;

(bb) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries; and

(cc) no commission has been paid or payable for subscribing or agreeing to subscribe, or procuring or agreeing to procure the subscriptions, for any shares in our Company or any of our subsidiaries;

(ii) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;

(iii) our Group does not have any outstanding convertible debt securities or debentures;

- (b) our Directors confirm that there has been no material adverse change in the financial or trading position or prospects of our Group since 31 December 2019 (being the date to which the latest consolidated financial statements of our Group were made up);
- (c) there has not been any interruption in the business of our Group which may have or has had a significant effect on the financial position of our Group in the 12 months preceding the date of this prospectus;
- (d) there is no arrangement under which future dividends are waived or agreed to be waived; and
- (e) no equity or debt securities of our Company or its subsidiaries are listed, and no listing of any securities is proposed to be sought, on any other stock exchange.

**29. Bilingual prospectus**

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided under section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

**1. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES**

The documents attached to a copy of this prospectus and delivered to the Registrar of Companies in Hong Kong for registration were, amongst other documents, (i) copies of the **WHITE, YELLOW** and **GREEN** application forms; (ii) the written consents referred to in “Statutory and general information — Other information — 24. Consents of experts” in Appendix IV to this prospectus; (iii) copies of the material contracts referred to in “Statutory and general information — Further information about the business of our Company — 8. Summary of material contracts” in Appendix IV to this prospectus; and (iv) the statements of particulars of the Selling Shareholders.

**2. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the office of Mayer Brown at 18th Floor, Prince’s Building, 10 Chater Road, Central, Hong Kong, during normal business hours from 9:00 a.m. to 5:00 p.m. up to and including the date which is 14 days from the date of this prospectus:

- (a) our Memorandum of Association and the Articles of Association;
- (b) the Accountants’ Report issued by Deloitte Touche Tohmatsu in respect of the historical financial information of our Group for FY2017, FY2018 and FY2019, the text of which is set out in Appendix I to this prospectus;
- (c) the report on the unaudited pro forma financial information of our Group from Deloitte Touche Tohmatsu, the text of which is set out in Appendix II to this prospectus;
- (d) the consolidated audited financial statements of our Group for FY2017, FY2018 and FY2019;
- (e) the Cayman Islands Companies Law;
- (f) the letter of advice prepared by Conyers Dill & Pearman, our Cayman legal adviser, summarising certain aspects of Cayman Islands law referred to in Appendix III to this prospectus;
- (g) the legal opinions issued by Jingtian & Gongcheng, our PRC Legal Advisers, in respect of certain aspects of our Group and summary of PRC laws and regulations relating to our business;
- (h) the legal memorandum prepared by Hogan Lovells, our International Sanctions Legal Advisers;
- (i) the CIC Report prepared by CIC as referred to in “Industry overview” in this prospectus;
- (j) the material contracts referred to in “Statutory and general information — Further information about the business of our Company — 8. Summary of material contracts” in Appendix IV to this prospectus;
- (k) the written consents referred to in “Statutory and general information — Other information — 24. Consents of experts” in Appendix IV to this prospectus;



- (l) the Share Option Scheme;
- (m) the service contracts and letters of appointment referred to in “Statutory and general information — Further information about Directors and Shareholders — 12. Directors” in Appendix IV to this prospectus; and
- (n) the statements of particulars of the Selling Shareholders.



SINO-ENTERTAINMENT  
TECHNOLOGY HOLDINGS LIMITED  
新娛科控股有限公司