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Post Hearing Information Pack of



Gala Technology Holding Limited

望塵科技控股有限公司

(the “Company”)

(Incorporated in the Cayman Islands with limited liability)

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望塵体育科技

Gala Technology Holding Limited

望塵科技控股有限公司

(incorporated in the Cayman Islands with limited liability)

[REDACTED]

Total number of [REDACTED] under the : [REDACTED] Shares
[REDACTED]

Number of [REDACTED] : [REDACTED] Shares (subject to reallocation)

Number of [REDACTED] : [REDACTED] Shares (subject to reallocation)

Maximum [REDACTED] : HK\$[REDACTED] per [REDACTED] plus
brokerage of 1.0%, SFC transaction levy of
0.0027%, Hong Kong Stock Exchange trading
fee of 0.00565% and AFRC transaction levy of
0.00015% (payable in full on application in
Hong Kong dollars, subject to refund on final
[REDACTED])

Nominal value : HK\$0.01 per Share

Stock code : [REDACTED]

Sole Sponsor, [REDACTED], [REDACTED], [REDACTED] and [REDACTED]

UOBKayHian

[REDACTED] and [REDACTED] (in alphabetical order)

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

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EXPECTED TIMETABLE⁽¹⁾

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EXPECTED TIMETABLE⁽¹⁾

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EXPECTED TIMETABLE⁽¹⁾

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EXPECTED TIMETABLE⁽¹⁾

[REDACTED]

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SUMMARY

This summary aims to give you an overview of the information contained in this document. As it is a summary, it does not contain all the information that may be important to you. You should read the whole document and particularly the section headed “Risk Factors” in this document which sets out some of the particular risks in [REDACTED] in the [REDACTED] before you decide to [REDACTED] in the [REDACTED].

OVERVIEW

We are a mobile game developer, publisher and operator in the PRC with a focus on mobile sports simulation games for global markets. We ranked second in the mobile sports game market in the PRC in 2021 in terms of revenue, representing a market share of approximately 7.9%. Mobile sports simulation games primarily comprise mobile sports management simulation games and mobile sports action simulation games. In 2021, we also ranked second in the mobile sports simulation game market in the PRC in terms of revenue, representing a market share of approximately 12.4%. The overall online sports game market includes all sports-themed games accessible to users on the internet, whereas, mobile sports simulation games refer specifically to online sports simulation games that are available on portable devices, such as tablets and smartphones. Although the online sports game market contributed only approximately 2.7% to the overall online game market in the PRC in 2021, and is fragmented with many relatively small companies and dominated by the largest market player, we believe we are well-positioned to capture the growing market opportunities by capitalizing on our track record and success in the development and operation of mobile sports games.

Our Existing Game Portfolio

Over the years, we developed and operated primarily mobile sports games. As of the Latest Practicable Date, we developed and operated four mobile sports games, among which *Football Master* (足球大師), *NBA Basketball Master* (NBA籃球大師) and *Football Champion* (最佳11人 — 冠軍球會) formed the backbone of our business and contributed the majority of our revenue during the Track Record Period.

We have cultivated our user base from *Football Master* (足球大師), our first flagship mobile sports management simulation game launched in July 2014. Leveraging our success of *Football Master* (足球大師), we developed and launched our second mobile sports management simulation game, *NBA Basketball Master* (NBA籃球大師) in September 2017. Our *Football Champion* (最佳11人 — 冠軍球會) was launched in April 2020 with enhanced realistic graphics to feature more authentic 3D simulation on professional player’s motion, and with IP right licenses obtained from internationally renowned sports league, sports associations and sports clubs that are appealing to global football fans.

Football Master (足球大師) and *NBA Basketball Master* (NBA籃球大師) have contributed a significant part to our total revenue from 2019 to 2021, accounting for 46.2% and 51.7% in 2019, 35.9% and 53.5% in 2020, and 29.4% and 38.4% in 2021, respectively. After the launch in April 2020, *Football Champion* (最佳11人 — 冠軍球會) contributed to approximately 10.2%, 32.2% and 52.9% of our total revenue in 2020, 2021 and for the six months ended June 30, 2022, respectively.

SUMMARY

Our *Football Master* (足球大師), *NBA Basketball Master* (NBA籃球大師) and *Football Champion* (最佳11人 — 冠軍球會) are expected to have a remaining lifecycle of approximately 19 months, 57 months and 88 months, respectively as of the Latest Practicable Date due to a myriad of factors, such as the enduring popularity of sports, prolonged user engagement because of the stickiness of the loyal sports fans and realistic portrayal of real-life sports world development of our games with continuous upgrades and updates as well as our continuous efforts to extend the lifecycle of our games through various measures.

In July 2022, we successfully launched our new mobile sports action simulation game, *Total Football* (最佳球會) in the PRC, New Zealand and Australia. *Total Football* (最佳球會) is our first self-developed mobile football action simulation game which incorporates the state of art 3D gameplay scenes and more advanced AI technology to enhance users’ sensational experience in the virtual sports matches by the application of manual steering skills. By virtue of the seamless gameplay with sophisticated action animation, *Total Football* (最佳球會) was featured and demonstrated on the display of Apple iPad model. For details, please refer to “Business — Our Games Pipeline — Lifecycle of our games”. For more information as to our existing game portfolio, please refer to the section headed “Business — Existing game portfolio”.

Leveraging our experiences in the development of our four signature mobile sports games, we are committed to making continuous effort in capturing the market opportunities in the mobile sports game industry in the PRC and overseas markets to expand our mobile sports game portfolio. As of the Latest Practicable Date, we had a pipeline of three new mobile sports games, which are expected to be launched in December 2022 or January 2023, by the second half of 2023 and by the second half of 2024, respectively. To create attractive game content, we formed valuable and strategic relationships with IP right holders, including internationally renowned sports league, sports associations and sports clubs, including FIFPro, NBA, NBPA, Juventus F.C., Manchester City F.C., F.C. Bayern Munich, Paris Saint-Germain F.C., Borussia Dortmund and F.C. Barcelona. Our game development and operational capabilities have secured us the recognition by these sports league, sports associations and sports clubs which grant us IP right licenses to sustain the long-term popularity of our games.

During the Track Record Period, the majority of our revenue was derived from our self-developed mobile sports games launched in both the PRC and overseas markets. All of our games are introduced on a free-to-play model and we generate our revenue from monetizing users by in-game purchases of virtual items. As a result of our success in capturing the market opportunities in the mobile sports game industry and driving user engagement, we have experienced a stable growth during the years ended December 31, 2019, 2020 and 2021, generating a revenue of approximately RMB378.6 million, RMB404.7 million and RMB459.9 million, respectively, representing a CAGR of approximately 10.2% from 2019 to 2021. For the six months ended June 30, 2022, our revenue further increased significantly by approximately RMB113.8 million, or 62.9% to approximately RMB294.8 million from approximately RMB181.0 million for the corresponding period in 2021.

SUMMARY

The table below sets forth a breakdown of revenue by our games for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(Unaudited)									
<i>Football Master (足球大師)</i>	174,693	46.2	145,369	35.9	134,988	29.4	67,546	37.3	55,264	18.7
<i>NBA Basketball Master</i> <i>(NBA籃球大師)</i>	195,905	51.7	216,479	53.5	176,693	38.4	80,703	44.6	83,715	28.4
<i>Football Champion</i> <i>(最佳11人 — 冠軍球會)</i>	68	*	41,368	10.2	148,170	32.2	32,725	18.1	155,796	52.9
<i>Chinese Super League</i> <i>(冠軍中超OL)⁽¹⁾</i>	7,205	1.9	857	0.2	—	—	—	—	—	—
<i>Idol Love Story</i> <i>(戀愛吧! 偶像)⁽¹⁾</i>	759	0.2	672	0.2	—	—	—	—	—	—
Total	378,630	100.0	404,745	100.0	459,851	100.0	180,974	100.0	294,775	100.0

* Less than 0.1%

Note:

- (1) Discontinued games. Please refer to the section headed “Business — Existing game portfolio — Discontinued games” for more information.

Except for *Idol Love Story (戀愛吧! 偶像)*, all of our mobile games are themed with sports. The following table sets forth a breakdown of revenue, gross profit and gross profit margin by types of our mobile games for the periods indicated:

	Year ended December 31,												Six months ended June 30,					
	2019				2020				2021				2021				2022	
	Revenue	Gross profit	margin		Revenue	Gross profit	margin		Revenue	Gross profit	margin		Revenue	Gross profit	margin		Revenue	Gross profit
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(Unaudited)																	
<i>Sports mobile games</i>	377,871	99.8	176,903	46.8	404,073	99.8	186,738	46.2	459,851	100	221,527	48.2	180,974	100.0	82,642	45.7	294,775	100.0
<i>Non-sports mobile games</i>	759	0.2	149	19.6	672	0.2	197	29.3	—	—	—	—	—	—	—	—	—	—
<i>Others*</i>	—	—	(5,951)	—	—	—	(6,544)	—	—	—	—	—	—	—	—	—	—	—
Total	378,630	100	171,101	45.2	404,745	100	180,391	44.6	459,851	100	221,527	48.2	180,974	100.0	82,642	45.7	294,775	100.0

* Others refer to cost of revenue unallocated to different types of our mobile games, mainly consist of staff costs, depreciation of property, plant and equipment and depreciation of right-of-use assets.

For further details of our mobile games, please refer to the section headed “Business — Our Games Pipeline”.

SUMMARY

The table below sets forth a breakdown of top up amount⁽¹⁾ of our users by geographical locations⁽²⁾ for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
The PRC	332,882	89.2	379,845	91.3	369,092	76.5	157,717	87.3	230,952	74.2
Overseas ⁽³⁾	40,240	10.8	36,162	8.7	113,323	23.5	22,928	12.7	80,159	25.8
Total	373,122	100.0	416,007	100.0	482,415	100.0	180,645	100.0	311,111	100.0

Notes:

- (1) The top up amount is defined as payment made by the paying users and credited to the user's game account. The top up amount is based on the operational data extracted from our database and thus not audited. The difference between the top up amount and the revenue recognized by our Group is mainly attributable to (i) deferred revenue recognized in accordance with the applicable accounting standards which results in the timing difference between the top up amount and revenue recognized; (ii) exchange differences arising from different exchange rates used by our Group and third-party distribution platforms; and (iii) applicable withholding tax withheld by third-party distribution platforms on behalf of our Group arising from our overseas top up amount.
- (2) The geographical location is determined by the IP address of the paying users where they registered our games for the first time.
- (3) Include users whose IP addresses at first time game registration are located outside the PRC, including Hong Kong, Macau, Taiwan, South Korea, Vietnam and other regions, and whose IP addresses were not recorded at registration or first log-in for *Chinese Super League* (冠軍中超OL).

OUR BUSINESS MODEL

As a mobile sports game developer, publisher and operator in the PRC, our business model is based on developing, launching, publishing, operating and monetizing our games.

Game Development

In terms of development, during the Track Record Period, except *Chinese Super League* (冠軍中超OL) that was co-developed with a third-party game publisher and *Idol Love Story* (戀愛吧!偶像) that was developed with a third-party game developer and publisher on a commission basis, all of our games are developed in-house. In order to develop and publish our mobile sports games, we would require IP right licenses of various sports leagues, sports associations and sports clubs.

Game Registration

Prior to publishing our games in the PRC, we would apply for the required game registration with the relevant government authorities. NPPA has been responsible for the approval of online game registration and issuance of game publication numbers since March 2018. NPPA at the national level temporarily suspended approval of game registration and issuance of publication numbers for online games in July 2021 and then resumed to issue game publication numbers in April 2022. Nevertheless, during the Track Record Period and up to the Latest Practicable Date, we have not experienced any material difficulty in completing the game registration and obtaining the game publication numbers for our launched games in the PRC. For details, please refer to the sections

SUMMARY

headed “Regulatory Overview — Regulations on Online Games Publishing and Operation — Online Game Examination and Publishing” and “Business — Our Business Model — Game registration” in this document.

Game Publishing

During the Track Record Period, we mainly relied on self-publishing for games developed by our Group. We self-publish our games by (i) collaborating directly with third-party distribution platforms, such as application marketplaces to allows users to download our games; (ii) providing QR codes on our official website for visitors to download and install our games; and (iii) commissioning advertising and marketing agencies to publicize our games with links which would be directed to the official website of our games or various third-party distribution platforms. To a lesser extent, we also partner with third-party publishers to publish and promote our games. Our third-party publishers are responsible for publishing, marketing and promotion, and providing customer services for our games in the prescribed territories through various channels such as social media platforms; whereas, for self-publishing, we will engage various advertising and marketing agencies at our own discretion from time to time. For details of our cooperation with third-party publishers, third-party distribution platforms and advertising and marketing agencies, such as the range of revenue sharing percentages or payment arrangement, please refer to sections headed “Business — Our Business Model — Game publishing” and “Financial Information — Critical Accounting Policies, Judgments and Estimates — Game Revenue Recognition”.

Post-launch Operations

After a game is launched, we will regularly upgrade our games to reflect users’ feedback, market data collected and analysis conducted by our sales and marketing team. Usually, the entire game development takes approximately one and a half year to three years, starting from project initiation to official launch.

REVENUE BY PUBLISHING MODELS

The following table sets forth a breakdown of revenue by publishing models in absolute amounts and as percentages to our total revenue for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(Unaudited)									
Self-publishing games	360,360	95.2	395,024	97.6	452,672	98.4	176,928	97.8	292,106	99.1
Third party publishing games	18,270	4.8	9,721	2.4	7,179	1.6	4,046	2.2	2,669	0.9
Total	378,630	100.0	404,745	100.0	459,851	100.0	180,974	100.0	294,775	100.0

Cost of Revenue

Our cost of revenue primarily consists of (i) commission fee to the Platforms; (ii) license fees which include our amortisation charges on royalty fees to our IP right holders; (iii) revenue sharing to third-party publishers; (iv) staff costs for daily operation; and (v) server usage expenses. Our cost of revenue increased by approximately RMB16.9 million, or 8.1%, from approximately RMB207.5 million for the year ended December 31, 2019 to approximately RMB224.4 million for the year

SUMMARY

ended December 31, 2020, and further increased by approximately RMB13.9 million, or 6.2%, to approximately RMB238.3 million for the year ended December 31, 2021. For the six months ended June 30, 2022, our cost of revenue increased by approximately RMB47.6 million, or 48.4%, to approximately RMB145.9 million from approximately RMB98.3 million for the corresponding period in 2021. For more detailed analysis as to our cost of revenue, please refer to the section headed “Financial Information — Period to Period Comparison of Results of Operations”.

The following table sets forth a breakdown of our cost of revenue in absolute amounts and as percentages to our total cost of revenue for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
							(Unaudited)			
Commission fee to the Platforms	142,939	68.9	157,331	70.1	168,098	70.5	69,185	70.4	102,290	70.1
License fees	40,118	19.3	47,711	21.3	47,739	20.0	19,194	19.5	29,813	20.4
Revenue sharing to third-party publishers	14,764	7.1	8,129	3.6	5,682	2.4	3,215	3.3	2,244	1.5
Staff costs	5,287	2.5	5,920	2.6	8,503	3.6	3,620	3.7	5,782	4.0
Server usage expenses	3,757	1.8	4,638	2.1	7,434	3.1	2,830	2.9	5,121	3.5
Others*	664	0.4	625	0.3	868	0.4	288	0.2	660	0.5
Total cost of revenue	207,529	100.0	224,354	100.0	238,324	100.0	98,332	100.0	145,910	100.0

* Others mainly consist of depreciation of property, plant and equipment and depreciation of right-of-use assets.

KEY OPERATIONAL METRICS

We measure our games’ performance by nine key operating metrics, namely (i) total registered users; (ii) total new users; (iii) average DAUs; (iv) average MAUs; (v) active users retention rate; (vi) average MPUs; (vii) paying users retention rate; (viii) ARPPU; and (ix) acquisition cost per new user.

The following table sets forth the aggregate active users retention rate and the aggregate paying users retention rate of our existing games during the Track Record Period (i.e. *Football Master* (足球大師), *NBA Basketball Master* (NBA籃球大師) and *Football Champion* (最佳11人 — 冠軍球會)).

	For the year ended December 31,			For the six months ended
	2019	2020	2021	June 30, 2022
Active users retention rate (%)	8.4	5.2	7.3	5.6
Paying users retention rate (%)	5.0	6.4	5.3	6.7

SUMMARY

The following table sets out these operating metrics for *Football Master* (足球大師)[#]:

	For the year ended December 31,			For the year ended December 31,			For the year ended December 31,			For the six months ended June 30,		
	2019		Total	2020		Total	2021		Total	2022		Total
	PRC	Overseas ⁽¹⁾		PRC	Overseas ⁽¹⁾		PRC	Overseas ⁽¹⁾		PRC	Overseas ⁽¹⁾	
Total registered users	773,472	1,956,804	2,730,276	1,010,271	3,357,720	4,367,991	1,230,695	4,483,947	5,714,642	1,325,762	4,808,961	6,134,723
Total new users	419,490	1,582,887	2,002,377	236,799	1,400,916	1,637,715	220,424	1,126,227	1,346,651	95,067	325,014	420,081
Average DAUs	25,742	23,340	49,082	24,840	22,896	47,736	17,600	15,912	33,512	16,042	10,839	26,881
Average MAUs	82,557	173,548	256,105	62,798	145,135	207,933	47,327	115,657	162,984	41,367	68,205	109,572
Active users retention rate (%)	26.0	16.8	21.1	14.0	4.1	6.5	17.1	4.4	6.9	12.4	2.6	4.6
Average MPUs	15,744	4,156	19,900	8,234	3,524	11,758	5,506	2,420	7,926	4,653	1,561	6,214
Paying users retention rate (%)	5.8	6.8	6.0	8.6	11.2	9.1	18.7	18.3	18.6	18.0	16.6	17.6
ARPPU (RMB)	772	339	682	1,300	476	1,053	1,626	790	1,371	1,585	1,019	1,442
Acquisition cost per new user (RMB) ⁽²⁾	—	—	8.1	—	—	1.3	—	—	0.1	—	—	*

* less than 0.01

Notes:

- The operational data of our game in overseas jurisdictions include users initially registering our games with recorded overseas IP addresses. For illustrative purpose only, the PRC excludes Hong Kong, Macau and Taiwan.
- The acquisition cost per new user is calculated holistically without differentiating users from the PRC and overseas markets as our advertisements and marketing activities were mainly conducted on various online platforms or channels accessible by users across different countries.

[#] *Football Master* (足球大師) is named as “足球大師 — 黃金一代” in the PRC and “Football Master” in all other overseas markets as of the Latest Practicable Date.

The following table sets out these operating metrics for *NBA Basketball Master* (NBA籃球大師)[#]:

	For the year ended December 31			For the year ended December 31			For the year ended December 31			For the six months ended June 30,		
	2019		Total	2020		Total	2021		Total	2022		Total
	PRC	Overseas ⁽¹⁾		PRC	Overseas ⁽¹⁾		PRC	Overseas ⁽¹⁾		PRC	Overseas ⁽¹⁾	
Total registered users	9,257,373	613,248	9,870,621	11,969,705	796,160	12,765,865	16,873,664	969,228	17,842,892	19,291,540	1,006,699	20,298,239
Total new users	4,032,101	211,938	4,244,039	2,712,332	182,912	2,895,244	4,903,959	173,068	5,077,027	2,417,876	37,471	2,455,347
Average DAUs	68,239	6,824	75,063	63,200	4,631	67,831	56,402	3,298	59,700	61,311	2,012	63,323
Average MAUs	461,653	44,696	506,349	336,416	26,225	362,641	497,465	20,439	517,904	490,429	9,562	499,991
Active users retention rate (%)	6.6	10.7	6.8	4.1	12.8	4.6	7.6	6.7	7.6	3.9	3.4	3.8
Average MPUs	42,839	2,474	45,313	44,257	1,545	45,802	31,000	1,104	32,104	34,910	540	35,450
Paying users retention rate (%)	4.5	6.8	4.6	5.3	7.6	5.4	3.7	7.2	3.8	4.7	6.0	4.8
ARPPU (RMB)	362	562	372	389	797	403	454	752	464	395	995	404
Acquisition cost per new user (RMB) ⁽²⁾	—	—	8.9	—	—	11.6	—	—	5.9	—	—	4.3

Notes:

- The operational data of our game in overseas jurisdictions include users initially registering our games with recorded overseas IP addresses. For illustrative purpose only, the PRC excludes Hong Kong, Macau and Taiwan.
- The acquisition cost per new user is calculated holistically without differentiating users from the PRC and overseas markets as our advertisements and marketing activities were mainly conducted on various online platforms or channels accessible to users across different countries.

[#] *NBA Basketball Master* (NBA籃球大師) is named as “NBA籃球大師” in the PRC, Hong Kong and Macau and “NBA大師Mobile” in Taiwan as of the Latest Practicable Date.

SUMMARY

The following table sets out these operating metrics for *Football Champion* (最佳11人 — 冠軍球會)[#]:

	2019 ⁽¹⁾			For the year ended December 31, 2020 ⁽¹⁾⁽²⁾			2021			For the six months ended June 30, 2022		
	PRC	Overseas ⁽³⁾	Total	PRC	Overseas ⁽³⁾	Total	PRC	Overseas ⁽³⁾	Total	PRC	Overseas ⁽³⁾	Total
Total registered users	13,678	11	13,689	880,675	8,350	889,025	1,473,739	3,974,964	5,448,703	1,883,048	5,997,028	7,880,076
Total new users	13,678	11	13,689	866,997	8,339	875,336	593,064	3,966,614	4,559,678	409,309	2,022,064	2,431,373
Average DAUs	2,141	2	2,143	17,016	152	17,168	18,660	62,451	81,111	26,892	105,862	132,754
Average MAUs	13,677	11	13,688	96,171	861	97,032	82,706	422,341	505,047	110,823	530,272	641,095
Active users retention rate (%) ⁽²⁾	—	—	—	—	—	—	7.5	—	7.5	9.0	7.7	7.9
Average MPUs	1,037	2	1,039	14,264	118	14,382	15,316	27,487	42,803	25,466	31,625	57,091
Paying users retention rate (%) ⁽²⁾	—	—	—	—	—	—	4.9	—	4.9	9.0	6.3	7.1
ARPPU (RMB)	69	13	69	256	705	259	505	244	337	680	355	500
Acquisition cost per new user (RMB) ⁽⁴⁾	—	—	28.9	—	—	23.7	—	—	10.2	—	—	23.2

Notes:

1. The operational data of *Football Champion* (最佳11人 — 冠軍球會) for the year ended December 31, 2019 and for the first three months ended March 31, 2020 was generated from the public testing during the year/period.
2. *Football Champion* (最佳11人 — 冠軍球會) was launched in the PRC in April 2020 and subsequently in the overseas markets in 2021.
3. The operational data of our game in overseas jurisdictions include users initially registering our games with recorded overseas IP addresses. For illustrative purpose only, the PRC excludes Hong Kong, Macau and Taiwan.
4. The acquisition cost per new user is calculated holistically without differentiating users from the PRC and overseas markets as our advertisements and marketing activities were mainly conducted on various online platforms or channels accessible to users across different countries.

[#] *Football Champion* (最佳11人 — 冠軍球會) is named as “最佳11人 — 冠軍球會” in the PRC, “Football Master 2” in Vietnam, “ベストイレブン — CHAMPIONS CLUB” in Japan and “Football Master 2 — Soccer Star” in all other overseas markets as of the Latest Practicable Date.

The total registered users of *Football Master* (足球大師) experienced a growth at a CAGR of approximately 44.7% from 2019 to 2021. The ARPPU of *Football Master* (足球大師) also experienced a continuous growth at a CAGR of approximately 41.8% from 2019 to 2021, which was mainly attributable to our ability to constantly engage and retain the core groups of users who demonstrate high paying potential and substantial purchasing capability, and our strategy to maximize the monetization of such existing paying users.

The total registered users of *NBA Basketball Master* (NBA籃球大師) experienced a growth at a CAGR of approximately 34.5% from 2019 to 2021. The ARPPU of *NBA Basketball Master* (NBA籃球大師) also increased at a CAGR of approximately 11.7% from 2019 to 2021, mainly due to our continuous efforts to enhance and upgrade the game through offering new content and adding new selection of in-game virtual items.

The total registered users of *Football Champion* (最佳11人 — 冠軍球會) significantly increased by approximately 512.9% from 2020 to 2021 which was mainly due to our efforts to launch our game in Hong Kong, Vietnam and South Korea during August and September 2021. The ARPPU of *Football Champion* (最佳11人 — 冠軍球會) also increased by approximately 30.1% from 2020 to 2021.

SUMMARY

For details of the operational performance of each of our existing mobile sports games, please refer to the section headed “Business — Existing game portfolio” in this document.

OUR PIPELINE GAMES

We have been expanding our games portfolio mainly through the self-development of new games and introduction of new language versions of our existing games. As of the Latest Practicable Date, we are in the process of developing three new mobile sports games. Please refer to the section headed “Business — Existing game portfolio — New games” for more information.

Business sustainability

We believe that our Group’s four existing mobile sports games (i.e. *Football Master* (足球大師), *NBA Basketball Master* (NBA籃球大師), *Football Champion* (最佳11人 — 冠軍球會) and *Total Football* (最佳球會)) and our three new mobile sports games in the pipeline have a prolonged lifecycle which enables our Group to achieve a long-term and sustainable business growth for the reasons below:

- Our mobile sports games enjoy a relatively longer lifecycle;
- We have plans to maintain the profitability of our existing and new mobile sports games; and
- Our introduction of new mobile sports games could foster our business growth and enhance our market position.

For details, please refer to the section headed “Business — Our Games Pipeline — Business sustainability”.

OUR COMPETITIVE STRENGTHS

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

- We are a mobile sports game developer and operator in the PRC with a focus on sports simulation games;
- We have formed valuable and strategic relationships with IP right holders, including renowned sports league, sports associations and sports clubs, to create attractive game content;
- We have research and development as well as data analytics capabilities that enable us to create attractive mobile sports games and to drive user engagement;
- We are able to implement efficient monetization strategies to retain the core group of loyal and paying users and maximize their in-game spending, as well as cost-effective advertising and marketing capabilities to attract new users; and
- We are led by an experienced and dedicated management team.

Please refer to the section headed “Business — Competitive Strengths” for more information.

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OUR STRATEGIES

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

- Renew existing IP right licenses and obtain additional IP right licenses from sports leagues, sports associations and sports clubs for the development of our existing and new mobile sports games;
- Further solidify our marketing efforts to actively promote our games to both PRC and overseas markets; and
- Further strengthen our talent pool in order to support our development of new mobile sports games and further improve our research and development capabilities.

Please refer to the section headed “Business — Our Strategies” for more information.

COMPETITIVE LANDSCAPE

According to the Frost & Sullivan Report, as of December 31, 2021, there were approximately 480 companies in the online sports game market in the PRC. The market is fragmented with many relatively small companies with insignificant market influence and dominated by the largest market player with approximately 19.6% of market share in terms of revenue from online sports game in 2021. In particular, China’s mobile game industry is evolving rapidly and is highly competitive, as manifested by the frequent introduction of new products and services, limited product lifecycle for certain game models, rapid introduction of new technological and equipment advancement, evolving industry standards and constantly changing user demands and preferences. Other than local sports game developers and publishers, we also compete with certain leading overseas sports game developers when their games are localized and published in the PRC. We compete primarily on a number of factors, including development capabilities, ability to secure the suitable IP right licenses, utilization of advanced technology, ability to prolong the lifecycle of games, user base and engagement, marketing and promotional strategies, relationships with major third-party distribution platforms and publishers and monetization tactics. We believe we compete favourably on these factors. However, other mobile game companies could have greater financial, technological and marketing resources, which may allow them to publish more quality games to compete with us and adversely affect our ability to attract and retain users. These companies, including other potential new entrants, may emerge and take advantage of the influence from social media to access to a large user base and network effects to grow rapidly.

Please refer to the sections headed “Industry Overview — Competitive Landscape Analysis” and “Business — Competition” for more information.

OUR USERS

Users of our games are our ultimate customers, which are usually mobile sports game enthusiasts due to the nature of our existing games launched. As we continue to launch more mobile sports games into the market, we had built up a steady growth of users in both the PRC and overseas markets. Due to our large customer base, our five highest paying users in aggregate contributed to less than 5% of the total revenue for each year during the Track Record Period.

Please refer to the section headed “Business — Our Users” for more information.

SUMMARY

User concentration and our mitigation measures

Due to the Group’s strategies to constantly engage and retain the core group of users who demonstrate high paying potential and substantial purchasing capabilities and to maximize the monetization of such paying users, our top 1% paying users (by top up amount) contributed to approximately 71.7%, 75.0%, 71.5% and 64.7% of the total top up amount of our Group during the corresponding period. According to the Frost & Sullivan Report and to the best knowledge of our Directors, it is a common phenomenon in the online game industry that a relatively small group of paying users has contributed to a substantial proportion of the total revenue generated.

In order to mitigate the concentration risk of our revenue contribution by a small group of paying users, our Group has carried out measures including to (i) continue to develop and launch new games (including *MLB Baseball Master* (*MLB棒球大師*), *NBA Basketball Action* (*NBA操作籃球*) and *NFL American Football Master* (*NFL橄欖球大師*)) in the PRC and overseas markets to acquire more new users to broaden our base of paying users; and (ii) further intensify our marketing efforts to maintain the popularity of our existing mobile sports games and promoting our new mobile sports games and to encourage more in-game spending by all of our paying users in order to diversify the revenue contribution from our top paying users. Please refer to the section headed “Business — Our Users — User concentration and our mitigation measures” of this document for details.

OUR SUPPLIERS

Our top five suppliers

Purchases from our five largest suppliers in each year/period during the Track Record Period amounted to approximately RMB141.1 million, RMB152.6 million, RMB158.5 million and RMB126.4 million, representing approximately 52.4%, 54.1%, 50.0% and 58.4% of our total purchases for the respective year/period, respectively, and purchases from our largest supplier in each year/period during the Track Record Period amounted to approximately RMB57.2 million, RMB51.6 million, RMB57.9 million and RMB42.2 million, representing approximately 21.2%, 18.3%, 18.3% and 19.5% of our total purchases for the respective year/period, respectively. Our suppliers primarily include third-party distribution platforms, third-party publishers, third-party advertising and marketing service providers, server providers, and IP right holders. Please refer to section headed “Business — Our Suppliers” of this document for details.

Our top five advertising and marketing channels

During the Track Record Period, approximately 86.1%, 85.2%, 87.3% and 89.9% of our total advertising and marketing expenses were incurred to promote and market our Group’s games via our top five advertising and marketing channels, respectively. Please refer to the sections headed “Business — Our Suppliers — Our top five advertising and marketing channels” and “Financial Information — Description of Major Components of Our Results of Operations — Selling and marketing expenses” in this document for details.

RECENT REGULATORY DEVELOPMENT

On July 10, 2019, the MCT issued the Decision of the Ministry of Culture and Tourism on revocation the Interim Measures for the Administration of Online Games and the Measures for Planning and Administration of Tourism Development (《文化和旅遊部關於廢止〈網絡遊戲管理暫行辦法〉和〈旅遊發展規劃管理辦法〉的決定》), which specifies that the Interim Administrative Measures

SUMMARY

for Online Games (《網絡遊戲管理暫行辦法》) (the “**Online Game Measures**”) was abolished by the MCT on July 10, 2019. Since the abolishment of the Online Game Measures and as of the Latest Practicable Date, no new nor update on the relevant PRC law or regulation (including official guidelines) that comprehensively regulates the online game operation activities has been promulgated. Please refer to the section headed “Regulatory Overview — Regulations on Online Games Publishing and Operation” for more details.

On August 30, 2021, the NPPA issued the Notice on Further Strengthening Regulation to Effectively Prevent Online Gaming Addiction among Minors (《關於進一步嚴格管理切實防止未成年人沉迷網絡遊戲的通知》), which took effect on September 1, 2021. Compared with the Notice on Preventing Minors from Addiction to 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》) issued by the NPPA on October 25, 2019, the Notice on Further Strengthening Regulation to Effectively Prevent Online Gaming Addiction among Minors imposes stricter time limits for playing online games by minors (individuals under the age of 18) and requires that all the online games must be connected to the real-name registration and game addiction prevention system of the NPPA. On March 14, 2022, the CAC published the revised Regulations on the Online Protection of Minors (Draft for Comments) (《未成年人網絡保護條例(徵求意見稿)》), which sets out in details the responsibilities of the online platforms, online product or service providers, personal information processors, and manufacturers and sellers of smart terminal products. As of the Latest Practicable Date, the Minor Protection Draft has not been formally adopted. Please refer to the section headed “Regulatory Overview — Regulations on Anti-addiction System and Control of Myopia” for more details.

On December 28, 2021, the CAC and 12 other government authorities published a new version of the Measures for Cybersecurity Review (the “**Measures for Cybersecurity Review 2022**”), which came into effect on February 15, 2022. The Measures for Cybersecurity Review 2022 provides that the relevant operators shall apply with the Cybersecurity Review Office of CAC for a cybersecurity review under the following circumstances: (i) internet platform operators holding over one million individuals’ personal information aiming for foreign listing, (ii) operators of “critical information infrastructure” that intend to purchase internet products and services that will or may affect national security, or (iii) internet platform operators carrying out data processing that affect or may affect national security. Please refer to the section headed “Regulatory Overview — Regulations relating to Information Security and Censorship” for more details.

On November 14, 2021, the CAC published the Administrative Regulations on Internet Data Security (Draft for Comments) (《網絡數據安全管理條例(徵求意見稿)》) (the “**Draft Regulations on Internet Data Security**”) for public comments. The Draft Regulations on Internet Data Security sets out general guidelines covering subjects including protection of personal information, security of important data, security management of cross-border data transmission, obligations of internet platform operators, supervision and management, and legal liabilities of internet data security. In particular, the Draft Regulations on Internet Data Security requires a data processor to apply to the CAC for cybersecurity review if its listing in Hong Kong affects or may affect national security. As of the Latest Practicable Date, the Draft Regulations on Internet Data Security has not been formally adopted. Please refer to the section headed “Regulatory Overview — Regulations relating to Privacy Protection” for more details.

SUMMARY

Our Directors confirm that, during the Track Record Period and as of the Latest Practicable Date, our Group had not received any material notice or fine from the relevant PRC government authorities in respect of our online games publishing and operations in all material aspects. Also, our PRC Legal Advisers are of the view that the Group had complied with the laws and regulations regarding online game publishing and operations in the PRC in all material aspects during the Track Record Period and as of the Latest Practicable Date. Since (i) the majority of our Group’s core group of paying users in the PRC are not minors, (ii) as advised by our PRC Legal Advisers, the term “foreign listing” under Measures for Cybersecurity Review 2022 is likely to exempt listing in Hong Kong from the mandatory obligation of ex-ante declaration of cybersecurity review in the absence of factors affecting or potentially affecting national security, (iii) the revised Regulations on the Online Protection of Minors (Draft for Comments) (《未成年人網絡保護條例(徵求意見稿)》) and Draft Regulations on Internet Data Security (collectively, the “Drafts”) have not been formally adopted, and (iv) during the Track Record Period and as of the Latest Practicable Date, we have not been involved in any investigations nor received any notice or fine on minor protection, data security and cybersecurity review by the relevant government authorities in all material aspects, our Directors do not expect that as of the Latest Practicable Date, the Drafts would have any material adverse impact on our [REDACTED], business operations or financial performance. When the Drafts are finalized and become effective in the future, we will (i) take immediate steps to ensure compliance with the new regulatory requirements within a reasonable period of time, including thoroughly reviewing our business practices and operational policies, improving our privacy policies and service agreements with our users and service providers, establishing relevant mechanism in response to data security incidents, applying for cybersecurity review as applicable, filing important data with competent authorities and submitting relevant data security assessment report as required; (ii) proactively maintain communications with our legal advisers and the relevant local authorities as required, and continuously improve our operational procedures and take preventative measures to avoid any potential non-compliance; and (iii) continue to improve our minor protection, data security and cybersecurity protection technologies and measures to stay compliant with regulatory requirements and continue to monitor the developments of relevant regulations in the PRC and engage external professional consultants to advise us on relevant topics, if needed. Based on the aforementioned measures to be taken by us to ensure continuous regulatory compliance and the fact that during the Track Record Period and as of the Latest Practicable Date, (i) we have not been subject to any material fine or administrative penalty imposed by relevant PRC government authorities for any violation of laws and regulations regarding minor protection, data security and cybersecurity, and (ii) we have not experienced any material leakage of data or personal information, cyber attack or claim of inadequate minor protection measures, our Directors and our PRC Legal Advisers are of the view that if the Drafts were fully implemented in the current form, they are not expected to have any material adverse impact on our business operations.

THIS DOCUMENT IS IN DRAFT FORM, INCOMPLETE AND SUBJECT TO CHANGE AND THAT THE INFORMATION MUST BE READ IN CONJUNCTION WITH THE SECTION HEADED “WARNING” ON THE COVER OF THIS DOCUMENT.

SUMMARY

SUMMARY OF HISTORICAL FINANCIAL INFORMATION

Summary of Consolidated Statements of Comprehensive Income

The following table presents the summaries of items of the consolidated statements of comprehensive income of our Group in absolute amounts and as percentages to our total revenue for the periods indicated.

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(Unaudited)									
Revenue	378,630	100.0	404,745	100.0	459,851	100.0	180,974	100.0	294,775	100.0
Cost of revenue	(207,529)	(54.8)	(224,354)	(55.4)	(238,324)	(51.8)	(98,332)	(54.3)	(145,910)	(49.5)
Gross profit	171,101	45.2	180,391	44.6	221,527	48.2	82,642	45.7	148,865	50.5
Profit before income tax	50,532	13.3	44,792	11.1	41,726	9.1	5,171	2.9	23,877	8.1
Income tax (expense)/credit	(4,852)	(1.3)	(4,066)	1.0	(2,336)	(0.5)	1,858	1.0	(3,551)	(1.2)
Profit and total comprehensive income for the year, net of tax	<u>45,680</u>	<u>12.1</u>	<u>40,726</u>	<u>10.1</u>	<u>39,390</u>	<u>8.6</u>	<u>7,029</u>	<u>3.9</u>	<u>20,326</u>	<u>6.9</u>
Comprehensive income/(loss) attributable to:										
Owners of the Company	46,627	12.3	41,498	10.3	39,986	8.7	7,404	4.1	20,374	6.9
Non-controlling interests	(947)	(0.2)	(772)	(0.2)	(596)	(0.1)	(375)	(0.2)	(48)	*
	<u>45,680</u>	<u>12.1</u>	<u>40,726</u>	<u>10.1</u>	<u>39,390</u>	<u>8.6</u>	<u>7,029</u>	<u>3.9</u>	<u>20,326</u>	<u>6.9</u>

* Less than 0.1%

SUMMARY

Non-HKFRS Measure

To supplement our consolidated financial statements which are presented in accordance with HKFRS, we set forth in the table below the adjusted net profit (non-HKFRS measure) of our Group for the periods indicated after adjusting for the net fair value changes on the Pre-[REDACTED] Convertible Bonds and the [REDACTED] expenses as a non-HKFRS measure:

	Year ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Profit and total comprehensive income, net of tax	45,680	40,726	39,390	7,029	20,326
Add:					
Fair value loss on a financial liability measured at fair value through profit or loss	—	—	1,479	—	4,379
[REDACTED] Expenses	4,198	4,770	15,857	13,258	5,693
Deduct:					
Fair value gain on extension of a financial liability measured at fair value through profit or loss	—	—	—	—	(3,065)
Adjusted net profit (non-HKFRS measure)	49,878	45,496	56,726	20,287	27,333

The Group defines adjusted net profit (non-HKFRS measure) as profit and total comprehensive income, net of tax, for the period adjusted by the net fair value changes on the Pre-[REDACTED] Convertible Bonds (i.e. by adding back the fair value loss on the Pre-[REDACTED] Convertible Bonds and deducting the fair value gains on extension of the Pre-[REDACTED] Convertible Bonds) and the [REDACTED] expenses. The Group does not expect to record any further gain or loss due to fair value changes on the Pre-[REDACTED] Convertible Bonds thereafter. Further, the [REDACTED] expenses was added back to the adjusted net profit (non-HKFRS measure) as the [REDACTED] expenses are expenses related to the [REDACTED]. Therefore, the Group eliminates the potential impacts of such items that are expenses incurred in relation to the [REDACTED].

The Group believes that the presentation of such non-HKFRS measure when shown in conjunction with the corresponding HKFRS measure provides useful information to potential [REDACTED] and management in facilitating a comparison of our operating performance from period to period by eliminating potential impacts of the net fair value changes on the

SUMMARY

Notes:

1. Net profit margin equals to profit for the year/period divided by revenue for the year/period, multiplied by 100%.
2. Return on equity equals profit attributable to owners of our Company for the year divided by the closing balance of the equity attributable to owners of our Company, multiplied by 100%.
3. Return on assets equals profit for the year divided by the closing balance of total assets, multiplied by 100%.
4. Interest coverage ratio equals to operating profit for the year/period divided by interest expenses for the year/period.
5. Current ratio equals to total current assets divided by total current liabilities as at the year/period end date.
6. Quick ratio equals to total current assets less inventories divided by total current liabilities as at the year/period end date.
7. Debt-to-equity ratio equals to net debt divided by total equity as at the year/period end date. Net debt is defined to include all interest bearing bank borrowings and financial liability at fair value through profit or loss net of cash and cash equivalents.

Our return on equity decreased from approximately 36.4% for the year ended December 31, 2019 to approximately 27.8% for the year ended December 31, 2020, primarily due to the increase in equity attributable to owners of our Company resulted from the increase in retained earnings. Our return on equity increased from approximately 27.8% for the year ended December 31, 2020 to approximately 36.6% for the year ended December 31, 2021 mainly due to the decrease in equity attributable to owners of our Company resulted from the decrease in retained earnings mainly driven by the dividends declared and distributed of RMB80.0 million during 2021.

Our return on assets decreased from approximately 19.3% for the year ended December 31, 2019 to 16.1% for the year ended December 31, 2020 and further decreased to approximately 13.5% primarily due to the increase in total assets during the Track Record Period.

Our interest coverage ratio dropped significantly from approximately 251.3 times for the year ended December 31, 2019 to 72.5 times for the year ended December 31, 2020, primarily attributable to the decrease in operating profit and the increase in interest expense in 2020. Our interest coverage ratio further dropped to approximately 55.6 times for the year ended December 31, 2021, primarily attributable to the decrease in operating profit in 2021. For the six months ended June 30, 2022, our interest coverage ratio increased to approximately 46.9 times from approximately 13.2 times for the corresponding period in 2021, primarily attributable to the increase in operating profit.

Our current ratio increased slightly from approximately 1.9 times as at December 31, 2019 to 2.1 times as at December 31, 2020 primarily due to an increase in our cash and cash equivalents. Our current ratio decreased from approximately 2.1 times as at December 31, 2020 to approximately 1.4 times as at December 31, 2021 mainly due to an increase in financial liability at fair value through profit or loss as we recognized the Pre-[REDACTED] Convertible Bonds as a current financial liability during the year ended December 31, 2021. Our current ratio remained relatively stable at approximately 1.5 times as at June 30, 2022.

Our quick ratios as at December 31, 2019, 2020 and 2021 and as at June 30, 2022 were the same as our current ratio as we maintained no inventory during the same periods.

SUMMARY

Our Group did not have any interest-bearing bank borrowings as at December 31, 2019, 2020 and 2021 and June 30, 2022. Though we recognized the Pre-[REDACTED] Convertible Bonds as a financial liability at fair value through profit or loss of approximately RMB65.6 million and RMB67.0 million as at December 31, 2021 and June 30, 2022, respectively, we had sufficient cash and cash equivalents of approximately RMB188.4 million and RMB188.5 million as at December 31, 2021 and June 30, 2022, respectively to cover the financial liability position. As we did not record any net debt during the Track Record Period, the debt-to-equity ratio is not applicable to us for the relevant periods.

Please refer to the sections headed “Financial Information — Period to Period Comparison of Results of Operations”, “Financial Information — Key financial ratios” and “Accountant’s Report” in Appendix I for more information.

Selected Items of Consolidated Statements of Financial Position

	As at 31 December,		As at June 30,	
	2019	2020	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000
Assets				
Current assets	191,675	211,594	255,459	277,290
Non-current assets	45,059	41,141	36,903	44,711
Liabilities				
Current liabilities	99,012	102,978	176,913	186,961
Non-current liabilities	10,383	1,692	8,136	8,441
Net assets (or total equity)	127,339	148,065	107,313	126,599
Non-controlling interests	(637)	(1,409)	(1,879)	(864)
Net current assets	<u>92,663</u>	<u>108,616</u>	<u>78,546</u>	<u>90,329</u>

Our net current assets increased by approximately RMB15.9 million or 17.2%, from approximately RMB92.7 million as at December 31, 2019 to approximately RMB108.6 million as at December 31, 2020, primarily due to (i) an increase in cash and cash equivalents generated from the increase in cash from operating activities; and (ii) a decrease in current income tax liabilities; (iii) an increase in contract costs, partially offset by an increase in contract liabilities and a decrease in trade receivables. Our net current assets decreased by approximately RMB30.1 million, or 27.7%, from approximately RMB108.6 million as at December 31, 2020 to approximately RMB78.5 million as at December 31, 2021, primarily due to (i) the settlement of a dividend of RMB80.0 million declared during 2021; and (ii) an increase in other payables and accruals, partially offset by an increase in trade receivables and an increase in cash and cash equivalents, an increase in current portion of prepayment, deposits and other receivables and a decrease in trade payables. As at June 30, 2022, our net current assets then increased by approximately RMB11.8 million or 15.0%, to approximately RMB90.3 million, primarily due to (i) an increase of trade receivables; (ii) an increase in current portion of prepayment, deposits and other receivables; and (iii) an increase in current income tax receivables; and (iv) a decrease in other payables and accruals, partially offset by an increase in contract liabilities and an increase in current income tax liabilities. As at October 31, 2022, we maintained an unaudited net current assets of approximately RMB100.6 million.

SUMMARY

Our net assets (or total equity) increased by approximately RMB20.8 million or 16.3%, from approximately RMB127.3 million as at December 31, 2019 to approximately RMB148.1 million as at December 31, 2020, primarily due to the net profit generated of approximately RMB40.7 million, partially offset by a dividend of RMB20.0 million distributed by Wangchen Technology to its shareholders in 2020. Our net assets decreased by approximately RMB40.8 million, or 27.5%, from approximately RMB148.1 million as at December 31, 2020 to approximately RMB107.3 million as at December 31, 2021, primarily due to the net profit generated of approximately RMB39.4 million, offset by a dividend of RMB80.0 million distributed by Wangchen Technology to its shareholders in 2021. Our net assets increased by approximately RMB19.3 million, or 18.0%, from approximately RMB107.3 million as at December 31, 2021 to approximately RMB126.6 million as at June 30, 2022, primarily due to the net profits generated of approximately RMB20.3 million during the six months ended June 30, 2022.

Please refer to the sections headed “Financial Information — Discussion of Certain Key Consolidated Statements of Financial Position” and “Accountant’s Report” in Appendix I for more information.

Selected Items of Consolidated Statements of Cash Flows

	Year ended 31 December,			Six months ended June 30,	
	2019	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Net cash generated from operating activities	90,633	77,715	67,831	2,291	11,835
Net cash used in investing activities	(4,348)	(30,179)	(18,484)	(20,805)	(8,854)
Net cash used in financing activities	(12,012)	(23,174)	(23,326)	(19,741)	(4,265)
Net increase/(decrease) in cash and cash equivalents	74,273	24,362	26,021	(38,255)	(1,284)
Cash and cash equivalents at end of the year/period	145,032	163,723	188,410	124,776	188,493

We had cash and cash equivalents of approximately RMB145.0 million, RMB163.7 million, RMB188.4 million and RMB188.5 million as at December 31, 2019, 2020 and 2021 and June 30, 2022, respectively. During the Track Record Period and up to the Latest Practicable Date, we have funded our cash requirements principally from cash generated from our operating activities and our cash and bank balances comprising the [REDACTED] from the Pre-[REDACTED] Convertible Bonds subscribed by Garena Ventures. As at October 31, 2022, our cash and cash equivalents increased to approximately RMB218.0 million.

Please refer to the sections headed “Financial Information — Liquidity and Capital Resources” “Accountant’s Report” in Appendix I for more information.

DIVIDEND

Under the Articles of Association, our Company may declare dividends in any currency to be paid to the shareholders but no dividend shall be declared in excess of the amount recommended by the Board. The Articles of Association provides that dividends may be declared and paid out of the profits of our Company, realized or unrealized, or from any reserve set aside from profits which the Directors determine is no longer needed. With the sanction of an ordinary resolution, dividends may also be declared and paid out of share premium account or any other fund or account which can be

SUMMARY

authorized for this purpose in accordance with the Companies Act. For the year ended December 31, 2020, our Group declared and approved dividends amounting to approximately RMB20.0 million, which were subsequently settled in full during the year ended December 31, 2020. For the year ended December 31, 2021, our Group declared and approved dividends of RMB80.0 million, which was settled in full during the year ended December 31, 2021.

We are a holding company incorporated under the laws of the Cayman Islands. As a result, the payment and amount of any future dividend will also depend on the availability of dividends received from our subsidiaries. PRC laws require that dividends be paid only out of the profit for the year calculated according to PRC accounting principles, which differ in many aspects from the generally accepted accounting principles in other jurisdictions, including HKFRS. PRC laws also require a foreign-invested enterprise to set aside at least 10% of its after-tax profits, if any, to fund its statutory reserves, which are not available for distribution as cash dividends. Distributions from us and our subsidiaries may also become subject to any restrictive covenants in bank credit facilities, convertible bond instruments or other agreements that we or our subsidiaries may enter into in the future.

The amount of dividend actually distributed to our shareholders will depend upon our earnings and financial condition, operating requirements, capital requirements and any other conditions that our Directors may deem relevant and will be subject to approval of our shareholders. Our Board has the absolute discretion to recommend any dividend. Our historical dividend distribution record in the past may not be used as reference or basis to determine the level of dividends that may be declared or paid by our Company in the future, and there is no assurance that dividends of any amount will be declared or be distributed in any year. Currently we do not have a formal dividend policy or a fixed dividend distribution ratio.

Please refer to the section headed “Financial Information — Dividends” for more information.

RISK FACTORS

Our business and the [REDACTED] involve certain risks as set out in the section headed “Risk Factors” in this document. You should read that section in its entirety carefully before you decide to [REDACTED] in our Shares. Some of the major risks we face include:

- A significant majority of our revenue is derived from a limited number of games in recent fiscal periods.
- We may fail to extend the lifecycle of our existing mobile sports games successfully.
- If we fail to develop new games successfully or officially launch new games according to the contemplated timetable or at all or if we officially launch our new games at the same time as other popular games released by third parties, our business, financial condition and results of operations could be materially and adversely affected.
- Our revenue growth during the Track Record Period may not be indicative of our future growth, and our short operating history makes it difficult for us to evaluate our growth prospects and future financial results.
- We may not be able to anticipate or successfully adapt to new trends and may face increasingly intense competition in the mobile game industry which makes it difficult for us to evaluate our business and prospects.

SUMMARY

- If we fail to renew the IP licensing agreements with IP right holders or obtain new IP right licenses, the quality and appeal of our games may significantly decrease.

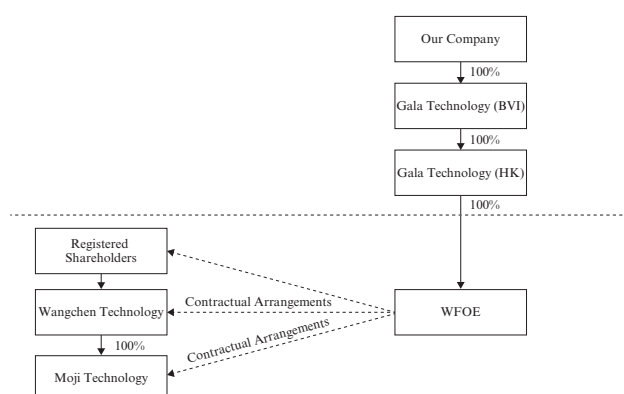
ENVIRONMENTAL, SOCIAL AND GOVERNANCE

We put in place an ESG policy which sets out key ESG-related objectives and responsibilities. Under the ESG policy, we will establish an ESG Oversight Committee under our Board, and this ESG Oversight Committee will have the responsibility for the identification, evaluation, prioritization and management of material ESG-related matters. Also, we will continue to monitor and evaluate any potential climate related issues and risks that may affect our business and will promptly respond to minimize such impact. For further details, please refer to the section headed “Business — Environmental, Social and Governance” in this document.

CONTRACTUAL ARRANGEMENTS

As foreign investment in certain areas of the industry in which we currently operate is subject to restrictions and prohibitions under current PRC laws and regulations, we have determined that it is not viable for our Company to hold our PRC Operating Entities directly through equity ownership. Instead, in line with the common practice in value-added telecommunications services industries in the PRC which are subject to foreign investment restrictions and prohibitions, we would gain effective control over, and receive substantially all the economic benefits generated by the businesses currently operated by our PRC Operating Entities through the Contractual Arrangements between (i) WFOE, on the one hand, and Wangchen Technology and the Registered Shareholders, on the other hand, and (ii) WFOE, on the one hand, and Moji Technology and its sole shareholder, Wangchen Technology, on the other hand. In order to comply with PRC laws and regulations while availing ourselves of international capital markets and maintaining effective control over all of our operations, we implemented the Contractual Arrangements with regards to our PRC Operating Entities.

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



Please refer the section headed “Contractual Arrangements” for more information.

SUMMARY

OUR LARGEST SHAREHOLDER

Immediately upon completion of the [REDACTED], the [REDACTED] and full conversion of the Pre-[REDACTED] Convertible Bonds and without taking into account any Shares which may be issued pursuant to the exercise of options that may be granted under the Share Option Scheme, Mr. Jia will, via Great Shine, beneficially own and control approximately [REDACTED] of the issued share capital of our Company and will be our Largest Shareholder.

Great Shine is an investment holding company which is wholly-owned by Mr. Jia. Mr. Jia is one of our Founders, the chairman of our Board, one of our executive Directors and our chief executive officer. For Mr. Jia’s background, please see “Directors and Senior Management” in this document. Neither Mr. Jia nor any of his close associates (including Great Shine but other than any member of our Group) is interested in any business which is, whether directly or indirectly, in competition with our business.

CONNECTED TRANSACTIONS

We have entered into the Contractual Arrangements, which are expected to continue after the [REDACTED] and will constitute our non-exempt continuing connected transactions under Chapter 14A of Listing Rules upon [REDACTED]. Please refer to the sections headed “Connected Transactions” and “Waivers from Strict Compliance with the Requirements under the Listing Rules.” in this document.

PRE-[REDACTED] INVESTMENTS

The Onshore Pre-[REDACTED] Investors made pre-[REDACTED] investments in Wangchen Technology, the consideration of which was settled between March 2015 and April 2021. Based on the total consideration paid by the existing Onshore Pre-[REDACTED] Investors for their respective Onshore Pre-[REDACTED] Investments and their respective shareholding in our Company (through their offshore investment vehicles) immediately upon completion of the [REDACTED] (assuming full conversion of the Pre-[REDACTED] Convertible Bonds), the respective Onshore Pre-[REDACTED] Investments represent a discount to the mid-point of the [REDACTED] range of approximately [REDACTED] to [REDACTED]. Pursuant to the Reorganization, our Company issued and allotted Shares to the offshore investment vehicles of the beneficial owners of Wangchen Technology (including, among others, the existing Onshore Pre-[REDACTED] Investors) to substantially reflect their original beneficial shareholding in Wangchen Technology at our Company’s level. Please refer to “Pre-[REDACTED] Investments — The Onshore Pre-[REDACTED] Investments” and “Reorganization — 7. Issue of Shares to certain offshore investment vehicles to substantially reflect the original beneficial shareholding in Wangchen Technology” in the section headed “History, Reorganization and Corporate Structure” in this document.

Garena Ventures, a wholly-owned subsidiary of Sea Limited which is listed on the New York Stock Exchange (ticker symbol: SE), made a pre-[REDACTED] investment in our Company by way of the [REDACTED] of the Pre-[REDACTED] Convertible Bonds at a consideration of HK\$[REDACTED], which was settled on June 21, 2021. The Pre-[REDACTED] Convertible Bonds, with a total principal amount of HK\$[REDACTED] and a conversion price of HK\$[REDACTED] per Share (which approximates to the mid-point of the [REDACTED] range), may be converted into [REDACTED] Shares, representing approximately [REDACTED] of the issued share capital of our Company immediately upon [REDACTED] (assuming that there is no adjustment to the conversion price and assuming full conversion of the Pre-[REDACTED] Convertible Bonds and without taking into account any Shares which may be issued pursuant to the exercise of options that may be granted under the Share Option Scheme). The Shares under the Pre-[REDACTED] Convertible Bonds are subject to a lock-up period of 180 days from the

SUMMARY

[REDACTED] provided that (a) the Shares may be transferred to Garena Ventures’ wholly-owned subsidiary or affiliate on the condition that such wholly-owned subsidiary or affiliate shall undertake to comply with such lock-up undertaking and remains a subsidiary of Sea Limited; and (b) any transfer of shares or other securities of Sea Limited shall not be restricted. Please refer to the section headed “History, Reorganization and Corporate Structure — Pre-[REDACTED] Investments — The Pre-[REDACTED] CB Subscription” in this document.

LOCK-UP UNDERTAKINGS

Each of our existing Shareholders has voluntarily undertaken that it shall not, without prior written consent of our Company and the [REDACTED], at any time during the period of six or 12 months (as the case may be) after the [REDACTED], dispose of, nor enter into any agreement to lend, dispose of or otherwise create any options, warrants, rights, interests or encumbrances in respect of any of the Shares held by it immediately upon the [REDACTED]. Please refer to the section headed “History, Reorganization and Corporate Structure — Corporate and Shareholding Structure — Lock-up Undertakings” in this document for further details.

COMPLIANCE

Save as disclosed in the section headed “Business — Legal Proceedings and Compliance — Non-compliance incidents with respect to Social Insurance and Housing Provident Fund Contributions”, our Directors confirm that we have no other material and systemic non-compliance of applicable laws and regulations in the PRC that had or would reasonably be expected to have material financial or operational impact on our business during the Track Record Period and up to the Latest Practicable Date. We are of the view that we have complied, in all material respects, with the relevant laws and regulations in the jurisdictions of our main operations during the Track Record Period and up to the Latest Practicable Date.

RECENT DEVELOPMENT

As a mobile sports games developer, publisher and operator, our business and results of operations depend on our ability to effectively deal with outbreak of health pandemics, natural disasters and other extraordinary events. For example, since the outbreak of COVID-19 pandemic throughout China and other countries and regions, a number of precautionary and control measures have been implemented worldwide to contain the virus. Government efforts to contain the spread of COVID-19 pandemic, including city lockdowns or “stay-at-home” orders, widespread business closures, restrictions on travel and emergency quarantines, have caused significant and unprecedented disruptions to the global economy and normal business operations across sectors and countries. However, the COVID-19 pandemic has caused minimal impact on our business up to the Latest Practicable Date in 2022. Based on the unaudited consolidated management accounts of our Group, we recorded an increase in revenue of approximately 51.0% for the ten months ended October 31, 2022 as compared to the corresponding period in 2021 mainly attributable to the significant growth of revenue generated from *Football Champion* (最佳11人 — 冠軍球會) after its expansion in the overseas markets since the second half of 2021 and the official launch of our new mobile sports action simulation game, *Total Football* (最佳球會), in July 2022. Our Directors expect that our net profit may experience a decrease for the year ending December 31, 2022 as compared to that of the year ended December 31, 2021, mainly due to (i) the expected increase in our research and development expenses due to our efforts to strengthen our research and development talent pools for the development of our new mobile sports games and to further improve our research and development capabilities; (ii) the expected increase in our advertising and marketing expenses to

SUMMARY

promote *Football Champion* (最佳11人 — 冠軍球會) in overseas markets as well as our new games launched/expected to be launched in the PRC and overseas markets, namely *Total Football* (最佳球會) in July 2022 and *MLB Baseball Master* (MLB棒球大師) in December 2022 or January 2023; (iii) the expected increase in our license fee payable to the IP right holders due to the launch of our new game, namely *Total Football* (最佳球會), during the year; and (iv) the expected increase in the [REDACTED] expenses during the year, which are in line with our Group’s expansion plan and business strategies. For details of our Group’s strategies to maintain our position in the market and expand our market share for sustainable growth, please refer to the section headed “Business — Our Strategies”.

In July 2022, we launched our new mobile sports action simulation game, *Total Football* (最佳球會) in the PRC, New Zealand and Australia. *Total Football* (最佳球會) is our first self-developed mobile football action simulation game which incorporates the state of art 3D gameplay scenes and more advanced AI technology to enhance users’ sensational experience in the virtual sports matches by the application of manual steering skills. By virtue of the seamless gameplay with sophisticated action animation, *Total Football* (最佳球會) was featured and demonstrated on the display of Apple iPad model.

According to Frost & Sullivan and to the best knowledge of our Directors, due to the relaxation of pandemic control measures, a decline in consumer spending on in-app purchases due to the economic downturn, and a rise in advertising costs, the global and the PRC mobile game market may be exposed to downward pressure in the short term. Nevertheless, a number of favourable factors including but not limited to (i) the gradual recovery of economy from the COVID-19 pandemic; (ii) the increase in the number of online game users across the world who have developed online gaming habit during the pandemic and are likely to maintain such habit despite the relaxation of pandemic control measures; and (iii) continuous technological innovation and increasing deployment of 5G internet, AI and 3D technologies which in turn enhance the attractiveness of online games, will contribute to the growth of the global and the PRC mobile game market in the long term. Taking into account both favourable and unfavourable factors in the short term and long term as mentioned above, it is expected that the global and the PRC mobile game market will maintain an upward momentum from 2021 to 2026 but at a lower growth rate when compared with that during 2016 to 2021.

[REDACTED] STATISTICS

The following table sets forth the [REDACTED] statistics immediately upon completion of the [REDACTED].

	Based on an [REDACTED] of [REDACTED] ⁽¹⁾	Based on an [REDACTED] of [REDACTED] ⁽²⁾
Market capitalization of our Shares	HK\$[REDACTED]	HK\$[REDACTED]
Unaudited pro forma adjusted net tangible assets per Share ⁽³⁾⁽⁴⁾	HK\$[REDACTED] (RMB[REDACTED])	HK\$[REDACTED] (RMB[REDACTED])

SUMMARY

Notes:

- (1) The calculation of market capitalization and unaudited pro forma adjusted net tangible assets per Share are under the assumption of no conversion of the Pre-[REDACTED] Convertible Bonds and hence [REDACTED] Shares expected to be in issue immediately upon completion of the [REDACTED] based on an [REDACTED] of HK\$[REDACTED] per Share which is less than the Conversion Price (i.e. HK\$[REDACTED] per Share).
- (2) The calculation of market capitalization and unaudited pro forma adjusted net tangible assets per Share are under the assumption of no conversion of the Pre-[REDACTED] Convertible Bonds and hence [REDACTED] Shares expected to be in issue immediately upon the completion of the [REDACTED] based on an [REDACTED] of HK\$[REDACTED] per Share.
- (3) For details of the unaudited pro forma adjusted net tangible assets per Share, please refer to “Appendix II — Unaudited Pro Forma Financial Information — A. Unaudited Pro Forma Statement of Adjusted Consolidated Net Tangible Assets” to this document.
- (4) Assuming full conversion of the Pre-[REDACTED] Convertible Bonds upon completion of the [REDACTED], the pro forma net tangible asset as at 30 June 2022 would have been RMB[REDACTED] and the unaudited pro forma adjusted net tangible asset per Share would have been RMB[REDACTED] (equivalent to HK\$[REDACTED]) based on the [REDACTED] of HK\$[REDACTED] per Share and RMB[REDACTED] (equivalent to HK\$[REDACTED]) based on the [REDACTED] of HK\$[REDACTED] per Share.

[REDACTED] EXPENSES

[REDACTED] expenses represent professional fees, [REDACTED] and other fees incurred in connection with the [REDACTED] and the [REDACTED]. We estimate that our [REDACTED] expenses (including [REDACTED]) will be approximately RMB[REDACTED] (assuming an [REDACTED] of HK\$[REDACTED] per share, being the mid-point of the indicative [REDACTED] range), of which approximately RMB[REDACTED] is directly attributable to the issue of the Shares to the public and to be deducted from equity, and approximately RMB[REDACTED] has been or is expected to be expensed in our consolidated statements of comprehensive income of which approximately RMB[REDACTED], RMB[REDACTED], RMB[REDACTED], RMB[REDACTED] and RMB[REDACTED] were charged prior to the Track Record Period, for the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022, respectively, adjusted by an exchange difference of approximately RMB[REDACTED]. An additional amount of approximately RMB[REDACTED] is expected to be recognized in our consolidated statements of comprehensive income on or before the [REDACTED].

Assuming an [REDACTED] of HK\$[REDACTED] per share, being the mid-point of the indicative [REDACTED] range, our [REDACTED] expenses of approximately RMB[REDACTED] will amount to approximately [REDACTED] of the gross [REDACTED] from the [REDACTED], of which the [REDACTED] and non-[REDACTED] portion will be approximately RMB[REDACTED] and RMB[REDACTED], respectively. Among the non-[REDACTED] portion of the [REDACTED] expenses, approximately RMB[REDACTED] will be accounted for as professional parties expenses and the remaining RMB[REDACTED] will be accounted for as non-professional parties expenses.

Please refer to the section headed “Financial Information — [REDACTED] Expenses” for more information.

SUMMARY

USE OF [REDACTED]

The aggregate [REDACTED] that we expect to receive from the [REDACTED] (after deducting [REDACTED] fees and [REDACTED] and other estimated expenses in connection with the [REDACTED], assuming an [REDACTED] of HK\$[REDACTED] per Share, being the mid-point of the indicative [REDACTED] range of HK\$[REDACTED] to HK\$[REDACTED] per Share) will be approximately HK\$[REDACTED] (equivalent to RMB[REDACTED]). We intend to use the [REDACTED] from the [REDACTED] as follows:

- Approximately [REDACTED] of our total estimated [REDACTED], or HK\$[REDACTED] (equivalent to RMB[REDACTED]), will be used for renewing existing IP right licenses and obtaining additional IP right licenses from sports leagues, sports associations and sports clubs for the development of existing and new mobile sports games;
- Approximately [REDACTED] of our total estimated [REDACTED], or HK\$[REDACTED] (equivalent to RMB[REDACTED]), will be used for solidifying our marketing efforts to actively promote our games to both PRC and overseas markets;
- Approximately [REDACTED] of our total estimated [REDACTED], or HK\$[REDACTED] (equivalent to RMB[REDACTED]), will be used for further strengthening our talent pool and further improving our research and development capabilities; and
- Approximately [REDACTED] of our total estimated [REDACTED], or HK\$[REDACTED] (equivalent to RMB[REDACTED]), will be used for working capital and general corporate purposes.

Please refer to the section headed “Future Plans and Use of [REDACTED]” in this document for more information.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, since June 30, 2022 and up to the date of this document, there has been no material adverse change in our financial or trading position and no event which would materially affect the information shown in our consolidated financial statements included in the Accountant’s Report in Appendix I to this document.

DEFINITIONS

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

“2019 FIL”	Foreign Investment Law (《中華人民共和國外商投資法》) adopted by the second session of the 13th National People’s Congress on March 15, 2019 and became effective on January 1, 2020
“2021 Negative List”	Special Administrative Measures (Negative List) for the Access of Foreign Investment (2021) (外商投資准入特別管理措施(負面清單)(2021年版))
“Accountant’s Report”	the accountant’s report of our Company dated December 30, 2022, the text of which is set out in Appendix I of this document
“affiliate”	any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person
“AFRC”	Accounting and Financial Reporting Council
“Anti-addiction Notice”	Notice Regarding the Implementation of Anti-addiction System on Online Games in Protecting the Physical and Mental Health of Minors (關於保護未成年人身心健康實施網絡遊戲防沉迷系統的通知)
“Articles” or “Articles of Association”	the articles of association of our Company (as amended from time to time), conditionally adopted on December 21, 2022 with effect from the [REDACTED], a summary of which is set out in Appendix III to this document
“associate(s)” or “close associate(s)”	has the meaning ascribed to it under the Listing Rules
“Baotuan”	成都抱團創業投資有限公司 (Chengdu Baotuan Venture Investment Co., Ltd.*) (former name: 成都抱團科技有限公司 (Chengdu Baotuan Technology Co., Ltd.*)), a company established in the PRC on August 27, 2013 with limited liability and one of the previous Pre-[REDACTED] Investors who had divested its equity interest in our Group
“Board” or “Board of Directors”	the board of directors of our Company
“business day”	any day (other than a Saturday, Sunday or public holiday) on which banks in Hong Kong are generally open for normal banking business
“BVI”	the British Virgin Islands
“CAGR”	compound annual growth rate

THIS DOCUMENT IS IN DRAFT FORM, INCOMPLETE AND SUBJECT TO CHANGE AND THAT THE INFORMATION MUST BE READ IN CONJUNCTION WITH THE SECTION HEADED “WARNING” ON THE COVER OF THIS DOCUMENT.

DEFINITIONS

“Capital Market Intermediary(ies)” or “capital market intermediary(ies)” or “CMI(s)”	the capital market intermediary(ies) as named in the section headed “Directors and Parties Involved in the [REDACTED]” of this document
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[REDACTED]	[REDACTED]
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“Cayman Companies Act” or “Companies Act”	the Companies Act (as revised) of the Cayman Islands, as amended or supplemented or otherwise modified from time to time
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[REDACTED]	[REDACTED]
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[REDACTED]	[REDACTED]
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[REDACTED]	[REDACTED]
------------	------------

[REDACTED]	[REDACTED]
------------	------------

[REDACTED]	[REDACTED]
------------	------------

DEFINITIONS

[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
“Chengwang Investment”	深圳市鵬望投資中心(有限合夥) (Shenzhen Chengwang Investment Centre (Limited Partnership)*), a limited partnership established in the PRC on April 7, 2016, which is one of the Registered Shareholders and held equity interest in Wangchen Technology for employee share incentive purpose
“China” or “the PRC”	the People’s Republic of China excluding, for the purpose of this document, Hong Kong, Macau and Taiwan
“Chuangxin Yizhou”	北京創新壹舟投資中心(有限合夥) (Beijing Chuangxin Yizhou Investment Centre (Limited Partnership)*), a limited partnership established in the PRC on June 20, 2014 and one of the previous Pre-[REDACTED] Investors who divested its equity interest in our Group
“Chuangxingu”	深圳創新谷投資管理有限公司 (Shenzhen Chuangxingu Investment Management Co., Ltd.*), a company established in the PRC with limited liability on January 31, 2013 and one of the Original Shareholders, and as of the Latest Practicable Date, the controlling shareholder of Chuangxingu was Mr. Gong Chuanjun (龔傳軍), an Independent Third Party
“Chuangzhen Shijie”	深圳市創真視界科技有限公司 (Shenzhen Chuangzhen Shijie Technology Co., Ltd.*), a company established in the PRC with limited liability on December 21, 2016 and an indirect subsidiary of our Company
“Circular 13”	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)
“Circular 37”	Circular concerning Foreign Exchange Administration of Overseas Investment and Financing and Round-trip Investment Conducted by Domestic Residents through Overseas Special Purpose Vehicle (關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知)
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time

DEFINITIONS

“Company” or “our Company” or “the Company”	Gala Technology Holding Limited (望塵科技控股有限公司), an exempted company incorporated under the laws of the Cayman Islands with limited liability on June 12, 2018
“connected person(s)” or “core connected person(s)”	has the meaning ascribed thereto in the Listing Rules
“connected transaction(s)”	has the meaning ascribed to it under the Listing Rules
“Contractual Arrangements”	the series of contractual arrangements entered into by, among others, (i) Wangchen Technology, the Registered Shareholders and the WFOE, and (ii) Moji Technology and its sole shareholder, Wangchen Technology and the WFOE, details of which are set out in the section headed “Contractual Arrangements” in this document
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會)
“Deed of Indemnity”	the deed of indemnity dated December 21, 2022 and executed by our Largest Shareholder in favor of our Company (for itself and as trustee for its subsidiaries), details of which are set out in the section headed “Statutory and General Information — D. Other Information — 2. Estate Duty and Tax Indemnity” in Appendix IV to this document
“Director(s)”	director(s) of our Company
“East Asia”	Japan and South Korea for the purpose of this document
“EIT”	enterprise income tax
“EIT Law”	the Law of the PRC on Enterprise Income Tax (中華人民共和國企業所得稅法) adopted by the National People’s Congress on March 16, 2007, and became effective on January 1, 2008 and amended on February 24, 2017 and December 29, 2018
“EU”	the European Union
“Extreme Condition(s)”	extreme conditions caused by a super typhoon as announced by the government of Hong Kong
“Founders”	the founders of our Group, namely Mr. Jia and Mr. Huang

DEFINITIONS

“Frost & Sullivan”	Frost & Sullivan (Beijing) Inc. Shanghai Branch Co., a market research and consulting company and Independent Third Party, which prepared the Frost & Sullivan Report
“Frost & Sullivan Report”	the industry report prepared by Frost & Sullivan and commissioned by our Company regarding the online game market in the PRC and the globe, as referred to in the section headed “Industry Overview” in this document
“Gala Sports HK”	Gala Sports Technology Limited (望塵體育科技有限公司) (formerly known as Diffgame (Hong Kong) Technology Co., Limited 再造時空(香港)科技有限公司), a company incorporated in Hong Kong with limited liability on April 17, 2012 and an indirect wholly-owned subsidiary of our Company
“Gala Technology (BVI)”	Gala Technology International Limited, a company incorporated in the BVI with limited liability on July 4, 2018 and a direct wholly-owned subsidiary of our Company
“Gala Technology (HK)”	Gala Technology (Hong Kong) Limited (望塵科技(香港)有限公司), a company incorporated in Hong Kong with limited liability on August 6, 2018 and an indirect wholly-owned subsidiary of our Company
“GAPP”	General Administration of Press and Publication (新聞出版總署)
“GAPP Online Game Notice”	the Notice Regarding the Consistent Implementation of the Stipulations on Three Provisions of the State Council and the Relevant Interpretations of the State Commission Office for Public Sector Reform and the Further Strengthening of the Administration of Pre-examination and Approval of Internet Games and the Examination and Approval of Imported Internet Games (Xin Chu Lian [2009] No. 13), jointly published by the GAPP, the NCA and the National Office of the Combating Pornography and Illegal Publication (新聞出版總署、國家版權局、全國「掃黃打非」工作小組辦公室關於貫徹落實國務院〈「三定」規定〉和中央編辦有關解釋，進一步加強網絡遊戲前置審批和進口網絡遊戲審批管理的通知) (新出聯[2009]13號) on September 28, 2009
“Garena”	Garena Online Private Limited, a company incorporated in Singapore with limited liability on May 8, 2009
“Garena Ventures”	Garena Ventures Private Limited, a company incorporated in Singapore with limited liability on February 23, 2015 and one of the existing Pre-[REDACTED] Investors
[REDACTED]	[REDACTED]
“Great Shine”	Great Shine Holding Limited, a company incorporated in the BVI with limited liability on June 6, 2018, which is wholly-owned by Mr. Jia
[REDACTED]	[REDACTED]

DEFINITIONS

“Group”, “our Group”, “the Group”, “we”, “us”, or “our”	our Company, our subsidiaries and our PRC Operating Entities, or, where the context so requires, in respect of the period prior to our Company becoming the holding company of our present subsidiaries, such subsidiaries as if they were subsidiaries of our Company at the relevant time
“Heguang Investment”	上海合光投資中心(有限合夥) (Shanghai Heguang Investment Centre (Limited Partnership)*), a limited partnership established in the PRC on February 13, 2005 and one of the previous Pre-[REDACTED] Investors who divested its equity interest in our Group
“High Triumph”	High Triumph Holding Limited, a company incorporated in the BVI with limited liability on June 6, 2018, which is wholly-owned by Mr. Huang
“HKFRS”	Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong dollars” or “HK dollars” or “HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
“Hong Kong Stock Exchange” or “Stock Exchange”	the Stock Exchange of Hong Kong Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
“ICP License”	the value-added telecommunications business operating license (增值電信業務經營許可證) issued by the relevant PRC government authorities with a service scope of internet information service

DEFINITIONS

“Independent Third Party(ies)”	an individual(s) or a company(ies) who or which is/are not connected (within the meaning of the Listing Rules) with any directors, chief executive or substantial shareholders (within the meaning of the Listing Rules) of us, our subsidiaries or any of their respective associates
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
“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 U.S. government, the European Union and its member states, the United Nations, the United Kingdom or the government of Australia
“International Sanctions Legal Advisers”	Hogan Lovells, our legal advisers as to International Sanctions laws
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
“Internet Publishing Service License”	the internet publishing service license (網絡出版服務許可證) for publishing on the internet
“Jiadao Gongcheng”	深圳嘉道功程股權投資基金(有限合夥) (Shenzhen Jiadao Gongcheng Equity Investment Fund (Limited Partnership)*), a limited partnership established in the PRC on November 10, 2014 and one of the existing Pre-[REDACTED] Investors
“Joyful Treasure”	Joyful Treasure Holding Limited, a company incorporated in the BVI with limited liability on June 6, 2018, which is wholly-owned by Mr. Zeng Ke, a senior management of our Group
“Largest Shareholder”	Mr. Jia, the largest shareholder of our Company who beneficially owned and controlled, through Great Shine, approximately 27.56% of the issued share capital of our Company as of the Latest Practicable Date
“Latest Practicable Date”	December 21, 2022, being the latest practicable date prior to the printing of this document for the purpose of ascertaining certain information contained in this document

DEFINITIONS

[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended or supplemented from time to time
“Longyuan Tianqi”	北京龍淵天啟投資管理中心(有限合夥) (Beijing Longyuan Tianqi Investment Management Centre (Limited Partnership)*), a limited partnership established in the PRC on August 5, 2013 and one of the Original Shareholders, and as of the Latest Practicable Date, the general partner of Longyuan Tianqi was Mr. Gao Bo (高波), an Independent Third Party
“Longyuan Yunteng”	天津龍淵雲騰投資管理合夥企業(有限合夥) (Tianjin Longyuan Yunteng Investment Management Partnership Enterprise (Limited Partnership)*), a limited partnership established in the PRC on May 7, 2014 and one of the existing Pre-[REDACTED] Investors
“M&A Rules”	the Rules 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)
“Macau”	the Macau Special Administrative Region of the PRC
“MCT”	Ministry of Culture and Tourism of the PRC (中華人民共和國文化和旅游部)
“Memorandum” or “Memorandum of Association”	the memorandum of association of our Company, conditionally adopted on December 21, 2022 with effect from the [REDACTED], and as amended from time to time, a summary of which is set out in Appendix III
“Mighty Yellow”	Mighty Yellow Holding Limited, a company incorporated in the BVI with limited liability on June 6, 2018, which is wholly-owned by Mr. Zhang Litao, one of our Pre-[REDACTED] Investors and a director of Wangchen Technology
“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游部) since March 2018
“MOE”	the Ministry of Education of the PRC (中華人民共和國教育部)

DEFINITIONS

“MOF”	the Ministry of Finance of the PRC (中華人民共和國財政部)
“MOFCOM”	the Ministry of Commerce of the PRC (中華人民共和國商務部)
“Moji Technology”	深圳市莫及科技有限公司 (Shenzhen Moji Technology Co., Ltd*), a company established in the PRC with limited liability on July 8, 2016 and one of our PRC Operating Entities
“MPS”	the Ministry of Public Security of the PRC (中華人民共和國公安部)
“Mr. Huang”	Mr. Huang Xiang (黃翔), one of our Founders, an executive Director, a substantial shareholder of our Company and one of the Original Shareholders
“Mr. Jia”	Mr. Jia Xiaodong (賈小東), one of our Founders, an executive Director, the chairman of our Board, our chief executive officer, our Largest Shareholder and one of the Original Shareholders
“Mr. Wang”	Mr. Wang Yang (汪洋), one of the Original Shareholders
“NCA”	National Copyright Administration of the PRC (中華人民共和國國家版權局)
“NDRC”	National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
“Neo Honour”	Neo Honour Holding Limited, a company incorporated in the BVI with limited liability on June 6, 2018, which is wholly-owned by Mr. Li Xin, an executive Director
“NPPA”	The National Press and Publication Administration (National Copyright Bureau) (國家新聞出版署(國家版權局)) under the Propaganda Department of the Central Committee of the CPC (中國共產黨中央委員會宣傳部), the authority in charge of online game registration and publication number issuance since March 2018
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
“Onshore Pre-[REDACTED] Investments”	has the meaning ascribed to it in the section headed “History, Reorganization and Corporate Structure — Pre-[REDACTED] Investments” of this document

DEFINITIONS

“Onshore Pre-[REDACTED] Investors”	has the meaning ascribed to it in the section headed “History, Reorganization and Corporate Structure — Pre-[REDACTED] Investments” of this document
“Original Shareholders”	the shareholders of Wangchen Technology upon its establishment in December 2013, namely Mr. Jia, Mr. Huang, Mr. Wang, Chuangxingu and Longyuan Tianqi
“PRC Government” or “State”	the central government of the PRC, including all political subdivisions (including provincial, municipal and other regional or local government entities) and its organs or, as the context requires, any of them
“PRC Legal Advisers”	Han Kun Law Offices, the PRC legal advisers to our Company
“PRC Operating Entities”	the entities we control through the Contractual Arrangements, being Wangchen Technology and Moji Technology
“Pre-[REDACTED] CB Subscription”	the pre-[REDACTED] investment made by Garena Ventures in our Company by way of subscription of the Pre-[REDACTED] Convertible Bonds
“Pre-[REDACTED] CB Subscription Agreement”	the agreement dated June 16, 2021 among our Company as issuer, Garena Ventures as subscriber, Mr. Jia, Mr. Huang, the WFOE, Wangchen Technology, Gala Technology (BVI), Gala Technology (HK) and Gala Sports HK in relation to the Pre-[REDACTED] CB Subscription
“Pre-[REDACTED] Convertible Bonds”	the convertible bonds issued by our Company in the principal amount of HK\$[REDACTED] to Garena Ventures pursuant to the Pre-[REDACTED] CB Subscription Agreement
“Pre-[REDACTED] Investments”	the Onshore Pre-[REDACTED] Investments and the Pre-[REDACTED] CB Subscription
“Pre-[REDACTED] Investors”	the pre-[REDACTED] investors who invested in our Group by way of the Pre-[REDACTED] Investments
[REDACTED]	[REDACTED]
“Primary Sanctioned Activity”	any activity in a Sanctioned Country or (i) with; or (ii) directly or indirectly benefiting, or involving the property or interests in property of, a Sanctioned Target by our Company incorporated or located in a Relevant Jurisdiction (if applicable) or which otherwise has a nexus with such jurisdiction with respect to the relevant activity, such that it is subject to the relevant sanctions laws or regulation

DEFINITIONS

“Registered Shareholders”	the direct shareholders of Wangchen Technology as of the Latest Practicable Date, being (1) Mr. Jia, (2) Mr. Huang, (3) Suzhou Fudebo, (4) Zhuoyuan Caifu, (5) Wangnuo Kanpu, (6) Wangbo Nawu, (7) Yashang Mobeier, (8) Tap4fun, (9) Yashang Nuohui, (10) Chengwang Investment, (11) Shenzhen Yunda, (12) Chuangxingu, (13) Longyuan Tianqi, (14) Mr. Zhang Litao (張栗滔), (15) Mr. Li Xin (李欣), (16) Longyuan Yunteng, (17) Jiadao Gongcheng, (18) Wangsheng Xiluo, and (19) Mr. Ma Guolin (馬國琳)
“Regulation S”	Regulation S under the U.S. Securities Act, as amended from time to time
“Relevant Jurisdiction”	any jurisdiction that is relevant to our Company and has sanctions related law or regulation restricting, among other things, its nationals and/or entities which are incorporated or located in that jurisdiction from directly or indirectly making assets or services available to our otherwise dealing in assets of certain countries, governments, persons or entities targeted by such law or regulation. For the purpose of this document, the Relevant Jurisdictions include United States, European Union, United Nations, the United Kingdom and Australia
“Relevant Persons”	our Company, together with its investors and shareholders and persons who might, directly or indirectly, be involved in permitting the [REDACTED], trading, clearing and settlement of its shares
“Reorganization”	the reorganization of our Group conducted in preparation for the [REDACTED], details of which are set out in the section headed “History, Reorganization and Corporate Structure” in this document
“Reporting Accountant”	PricewaterhouseCoopers
“RMB”	Renminbi, the lawful currency of the PRC
“SAFE”	State Administration of Foreign Exchange of the PRC (中華人民共和國外匯管理局)
“SAIC”	State Administration of Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局), which is reformed and known as the State Administration for Market Regulation of the PRC (中華人民共和國國家市場監督管理總局) since March 2018
“Sanctioned Country” or “Sanctioned Countries”	any country or territory subject to a general and comprehensive export, import, financial or investment embargo under sanctions related law or regulation of the Relevant Jurisdiction, currently Cuba, Iran, North Korea, Syria, the Crimea region of Ukraine/Russia and the self-proclaimed Luhansk People’s Republic and self-proclaimed Donetsk People’s Republic regions (Sudan was a Sanctioned Country prior to October 12, 2017)

DEFINITIONS

“Sanctioned Person(s)”	certain person(s) and identity(ies) listed on the Specially Designated Nationals and Blocked Persons List of the Office of Foreign Assets Control of the U.S. Department of the Treasury or other restricted parties lists maintained by the United States, the European Union, the United Nations or Australia
“Sanctioned Target”	any person or entity (i) designated on any list of targeted persons or entities issued under the sanctions-related law or regulation of a Relevant Jurisdiction; (ii) that is, or is owned or controlled by, a government of a Sanctioned Country; or (iii) that is the target of sanctions under the law or regulation of a Relevant Jurisdiction because of a relationship of ownership, control, or agency with a person or entity described in (i) or (ii)
“SAPPRFT”	State Administration of Press, Publication, Radio, Film and Television of the PRC (中華人民共和國國家新聞出版廣電總局), formerly known as General Administration of Press and Publication of the PRC (中華人民共和國國家新聞出版總署) and State Administration of Radio, Film and Television of the PRC (中華人民共和國國家電影電視總局), which is reformed and known as State Administration of Radio and Television of the PRC (中華人民共和國國家廣播電視總局) under State Council and National Press and Publication Administration (National Copyright Bureau) (中華人民共和國國家新聞出版總署(國家版權局)) under Propaganda Department of the Central Committee of the Communist Party of China (中共中央宣傳部) since March 2018
“SAT”	State Administration of Taxation of the PRC (中華人民共和國國家稅務總局)
“Secondary Sanctionable Activity”	certain activity by our Company that may result in the imposition of sanctions against the Relevant Persons(s) by a Relevant Jurisdiction (including designation as a Sanctioned Target or the imposition of penalties), even though our Company is not incorporated or located in that Relevant Jurisdiction and does not otherwise have any nexus with that Relevant Jurisdiction
“SFC”	Securities and Futures Commission of Hong Kong
“SFO”	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) in the capital of our Company with nominal value of HK\$0.01 each
“Shareholder(s)”	holder(s) of the Shares

DEFINITIONS

“Share Option Scheme”	the share option scheme conditionally adopted by our Shareholders on December 21, 2022, the principal terms of which are summarized in the section headed “Statutory and General Information — D. Other information — 1. Share Option Scheme” in Appendix IV to this document
“Shenzhen Yunda”	深圳昀達資產管理有限公司 (Shenzhen Yunda Asset Management Co., Ltd.)*, a company established in the PRC with limited liability on June 17, 2015 and one of the existing Pre-[REDACTED] Investors
“Sole Sponsor”	UOB Kay Hian (Hong Kong) Limited, a licensed corporation registered under the SFO permitted to carry on Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
[REDACTED]	[REDACTED]
“South Korea”	the Republic of Korea
“State Council”	the PRC State Council (中華人民共和國國務院)
“subsidiaries”	has the meaning ascribed to it in section 15 of the Companies Ordinance
“substantial shareholder(s)”	has the meaning ascribed to it under the Listing Rules and, unless the context requires otherwise, refers to the Largest Shareholder, Great Shine, Mr. Huang and High Triumph
“Suzhou Fudebo”	蘇州富德博企業管理諮詢合夥企業(有限合夥) (Suzhou Fudebo Enterprise Management Consultancy Partnership Enterprise (Limited Partnership)*), a limited partnership established in the PRC on August 19, 2020 and one of the existing Pre-[REDACTED] Investors
“Suzhou Youshun”	蘇州優順創業投資合夥企業(有限合夥) (Suzhou Youshun Venture Investment Partnership Enterprise (Limited Partnership)*), a limited partnership established in the PRC on November 25, 2016 and one of the existing Pre-[REDACTED] Investors
“Takeovers Code”	The Codes on Takeovers and Mergers and Share Buy-backs issued by the SFC, as amended, supplemented or otherwise modified from time to time
“Tap4fun”	成都創人所愛科技股份有限公司 (formerly known as 成都尼畢魯科技股份有限公司) (Tap4fun Co., Ltd.*), a company established in the PRC with limited liability on March 18, 2008 and one of the existing Pre-[REDACTED] Investors
“Thailand”	the Kingdom of Thailand

DEFINITIONS

“Track Record Period”	the three financial years of our Company ended December 31, 2021 and the six months ended June 30, 2022
“UK”	the United Kingdom of Great Britain and Northern Ireland
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
“U.S.” or “United States”	the United States of America
“U.S. dollars” or “US\$” or “USD”	U.S. dollars, the lawful currency of the United States of America
“U.S. Securities Act”	the United States Securities Act of 1933, as amended from time to time, and the rules and regulations promulgated thereunder
“Vietnam”	the Socialist Republic of Vietnam
“Wangbo Nawu”	深圳市望伯納烏科技企業(有限合夥) (Shenzhen Wangbo Nawu Technology Enterprise (Limited Partnership)*), a limited partnership established in the PRC on August 31, 2020, which is one of the Registered Shareholders and held equity interest in Wangchen Technology for employee share incentive purpose
“Wangchen Technology”	深圳市望塵科技有限公司 (Shenzhen Wangchen Technology Co., Ltd*), a company established in the PRC with limited liability on December 20, 2013 and one of our PRC Operating Entities
“Wangnuo Kanpu”	深圳市望諾坎普科技企業(有限合夥) (Shenzhen Wangnuo Kanpu Technology Enterprise (Limited Partnership)*), a limited partnership established in the PRC on July 17, 2017, which is one of the Registered Shareholders and held equity interest in Wangchen Technology for employee share incentive purpose
“Wangsheng Xiluo”	深圳市望聖西羅科技企業(有限合夥) (Shenzhen Wangsheng Xiluo Technology Enterprise (Limited Partnership)*), a limited partnership established in the PRC on July 20, 2017, which is one of the Registered Shareholders and held equity interest in Wangchen Technology for employee share incentive purpose
“WFOE”	深圳市望塵莫及科技有限公司 (Shenzhen Wangchen Moji Technology Co., Ltd.*), a company established in the PRC with limited liability on July 30, 2019 and an indirect wholly-owned subsidiary of our Company
[REDACTED]	[REDACTED]

DEFINITIONS

[REDACTED]	[REDACTED]
“Wild Caly”	Wild Caly Pte. Ltd., a company incorporated in Singapore with limited liability on August 31, 2022 and an indirect wholly-owned subsidiary of our Company
“Xinhaiyi”	新海宜科技集團股份有限公司 (New Sea Union Technology Group Limited*), a joint stock company established in the PRC with limited liability whose issued shares are listed on the Shenzhen Stock Exchange (stock code: 002089), and one of the previous Pre-[REDACTED] Investors who divested its equity interest in our Group
“Yashang Mobeier”	上海亞商莫貝爾投資中心(有限合夥) (Shanghai Yashang Mobeier Investment Centre (Limited Partnership)*), a limited partnership established in the PRC on July 24, 2014 and one of the existing Pre-[REDACTED] Investors
“Yashang Nuohui”	深圳亞商諾輝股權投資基金合夥企業(有限合夥) (Shenzhen Yashang Nuohui Stock Investment Fund Partnership Enterprise (Limited Partnership)*), a limited partnership established in the PRC on August 25, 2017 and one of the existing Pre-[REDACTED] Investors
“Yashang Yueke”	佛山亞商粵科互聯網投資中心(有限合夥) (Fushan Yashang Yueke Internet Investment Centre (Limited Partnership)*), a limited partnership established in the PRC on January 27, 2016 and one of the existing Pre-[REDACTED] Investors
“Yingfeng Zhihui”	深圳市盈峰智慧科技有限公司 (Shenzhen Yingfeng Zhihui Technology Co., Ltd.*) (former name: 深圳市易思博軟件技術有限公司 (Shenzhen Yisibo Software Technology Co., Ltd.)) a limited partnership established in the PRC on March 9, 2007 and one of the previous Pre-[REDACTED] Investors who divested its equity interest in our Group
“Yingnuo Ruier”	深圳英諾瑞爾科技合夥企業(有限合夥) (Shenzhen Yingnuo Ruier Technology Partnership Enterprise (Limited Partnership)*), a limited partnership established in the PRC on December 5, 2016, in which the WFOE was the general partner and held 1% partnership interest as of the Latest Practicable Date
“Zhangshang Zongheng”	掌上縱橫信息技術(北京)有限公司 (Zhangshang Zongheng Information Technology (Beijing) Co., Ltd.*) a company established in the PRC with limited liability on August 30, 2007 and one of the previous Pre-[REDACTED] Investors who divested its equity interest in our Group
“Zhuiyuan Caifu”	北京追遠財富資本合夥企業(有限合夥) (Beijing Zhuiyuan Caifu Capital Partnership Enterprise (Limited Partnership)*), a limited partnership established in the PRC on July 20, 2015 and one of the existing Pre-[REDACTED] Investors
“%”	per cent

THIS DOCUMENT IS IN DRAFT FORM, INCOMPLETE AND SUBJECT TO CHANGE AND THAT THE INFORMATION MUST BE READ IN CONJUNCTION WITH THE SECTION HEADED “WARNING” ON THE COVER OF THIS DOCUMENT.

DEFINITIONS

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

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

Translated English names of Chinese natural persons, legal persons, governmental authorities, institutions or other entities for which no official English translation exist are unofficial translations for identification purposes only. If there is any inconsistency, the Chinese names shall prevail.

GLOSSARY

This glossary of technical terms contains explanations of certain technical terms used in this document. As such, these terms and their meanings may not correspond to standard industry meanings or usage of these terms.

“3D”	three-dimension that is interactive animation and is graphically presented in the three dimensions of height, width and depth
“acquisition cost per new user”	the advertising and marketing expenses incurred for acquiring a new game user for our self-published game(s) in such period
“active users”	in any given period, (1) active users of a particular game refer 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 refer 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
“active users retention rate”	the retention rate of a certain group of active users for a given year or period in the previous year who remain our active users in the current year or period
“AI”	artificial intelligence; the simulation of human intelligence processes by machines, especially computer systems
“Android”	an operating system developed and maintained by Google Inc. which is used in touchscreen technology including smartphones and tablets
“ARPPU”	average monthly top up amount per paying user, which represents the game top up amount for the period divided by the average of the monthly paying users in such period
“average weekly user retention rate”	calculated by dividing the sum of the weekly user retention rate for a specified period by the number of weeks accounted for during that period
“DAU”	daily active user; in any given period, refers to an existing gameplay role that has entered and played any of the mobile games offered and operated by our Group at least once during such period; repeated entries by the same gameplay role from the same device are counted once only; however a single user which has multiple gameplay roles is counted multiple times by the number of his/her gameplay role; only the number of days which a game is in operation in the given period is counted

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“FIFPro”	The Fédération Internationale des Associations de Footballeurs Professionnels
“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
“In-game token(s)”	Tokens that we offer to users in our games to exchange into other in-game virtual items such as to extend their play sessions and to enhance game experience, which are non-refundable, non-tradable and non-convertible into real currency or property outside our game apps
“iOS”	a mobile operating system developed and maintained by Apple Inc. which is 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
“KOL(s)”	key opinion leader(s)
“MAU(s)”	monthly active user; in any given period, refers to an existing gameplay role that has entered and played any of the mobile games offered and operated by our Group at least once during such period; repeated entries by the same gameplay role from the same device are counted once only; however a single user which has multiple gameplay roles is counted multiple times by the number of his/her gameplay role; only the number of months which a game is in operation in the given period is counted
“MLB”	Major League Baseball
“MLBPA”	Major League Baseball Players Association
“mobile game”	a game that is downloaded and played on mobile devices
“MPU(s)”	monthly paying users, which refers to the number of paying users in the relevant calendar months
“NBA”	National Basketball Association
“NBPA”	National Basketball Players Association
“NFL”	National Football League
“NFLPA”	National Football League Players Association

GLOSSARY

“online games”	video games that are played over some form of computer or mobile network, including primarily web games and mobile games
“paying users”	in any given period, (1) paying users of a particular game refer to all registered users who have paid money to purchase the in-game virtual items, including virtual tokens and other virtual items, offered by our Group in our mobile games at least once in such period; and (2) paying users of a particular type or all of our games refer to the simple sum of the paying users of each game of such type or all of our games, if applicable, in such period and a registered user that has paid two or more games in such period is counted two or more paying users in such period
“paying users retention rate”	the retention rate of a certain group of paying users for a given year or period in the previous year who remain our paying users in the current year or period
“PC”	personal computer
“registered user”	a user becomes a registered user when such user (i) enters any of our Group’s mobile games the first time, or (ii) has downloaded any of our Group’s mobile games and enters such game the first time
“server”	a computer system that provides services to other computing systems over a computer network
“UI”	user interface
“virtual items”	tokens, items, avatars, skills, privileges or other in-game consumables, features or functionalities we offer to users to help them extend their play, enhance or personalize their game environments and accelerate their progress in our games
“virtual reality” or “VR”	a technology which creates a virtual environment through utilizing software and hardware of computers and brings users alternative audiovisual experience
“web games”	games that are played in a web browser on PC or mobile device without downloading any client base or application
“weekly user retention rate”	represents the percentage of user accounts that entered a game in the second week after the accounts were registered with the game in a specified weeks

FORWARD-LOOKING STATEMENTS

This document contains certain forward-looking statements and information relating to us and our subsidiaries that are based on the beliefs of our management as well as assumptions made by and information currently available to our management. When used in this document, the words “aim”, “anticipate”, “believe”, “could”, “expect”, “going forward”, “intend”, “may”, “ought to”, “plan”, “project”, “seek”, “should”, “will”, “would” and the negative of these words and other similar expressions, as they relate to us or our management, are intended to identify forward-looking statements. Such statements reflect the current views of our management with respect to future events, operations, liquidity and capital resources, some of which may not materialize or may change. These statements are subject to certain risks, uncertainties and assumptions, including the risk factors as described in this document. You are strongly cautioned that reliance on any forward-looking statements involves known and unknown risks and uncertainties. The risks and uncertainties facing us which could affect the accuracy of forward-looking statements include, but are not limited to, the following:

- our business operations and prospects;
- future developments, trends and conditions in the industries and markets in which we operate;
- our business strategies and plans to achieve these strategies;
- general economic, political and business conditions in the industries and markets in which we operate;
- changes to the regulatory environment, policies relating to our industry, business and corporate structure;
- the ability to attract and retain our users;
- the ability of third parties to perform in accordance with contractual terms and specifications;
- our ability to control or reduce costs;
- our ability to attract and retain qualified employees and key personnel;
- our dividend policy;
- our capital expenditure plans;
- the amount and nature of, and potential for, future development of our business;
- the actions of and developments affecting our competitors;
- all other risks and uncertainties described in the section headed “Risk Factors” in this document; and
- certain statements included in the sections headed “Industry Overview”, “Regulatory Overview”, “Business”, “Financial Information” and “Future Plans and Use of Proceeds” in this document with respect to operations, margins, overall market trends, risk management and exchange rates.

FORWARD-LOOKING STATEMENTS

By their nature, certain disclosures relating to these and other risks are only estimates and should one or more of these uncertainties or risks materialize or should underlying assumptions prove to be incorrect, our financial condition and actual results of operations may be materially and adversely affected and may vary significantly from those estimated, anticipated or projected, as well as from historical results.

Subject to the requirements of applicable laws, rules and regulations, we do not have any and undertake no obligation to update or otherwise revise the forward-looking statements in this document, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this document might not occur in the way we expect or at all. Accordingly, the forward-looking statements are not a guarantee of future performance and you should not place undue reliance on any forward-looking information. Moreover, the inclusion of forward-looking statements should not be regarded as representations by us that our plans and objectives will be achieved or realized. All forward-looking statements in this document are qualified by reference to the cautionary statements in this section.

In this document, statements of or references to our intentions or those of the Directors are made as of the date of this document. Any such information may change in light of future developments.

RISK FACTORS

You should read and consider carefully all the information set forth in this document and, in particular, the risks and uncertainties described below before making any [REDACTED] in the [REDACTED]. Our business, financial condition, results of operations or prospects could be materially and adversely affected by any of these risks and uncertainties. The market [REDACTED] of the [REDACTED] could decline significantly due to any of these risks and uncertainties, and you may lose all or part of your [REDACTED].

We believe that there are certain risks and uncertainties involved in our operations, many of which are beyond our control. These risks can be categorised into (i) risks relating to our business and industry, (ii) risks relating to our Contractual Arrangements, (iii) risks relating to conducting business in the PRC, and (iv) risks relating to the [REDACTED]. You should consider our business and prospects in light of the challenges we face, including the ones discussed in this section.

RISKS RELATING TO OUR BUSINESS AND INDUSTRY

A significant majority of our revenue is derived from a limited number of games in recent fiscal periods.

During the Track Record Period, we derived a majority of our revenue from three of our existing mobile games, namely, *Football Master* (足球大師), *NBA Basketball Master* (NBA籃球大師) and *Football Champion* (最佳11人 — 冠軍球會). These three games in aggregate contributed 97.9%, 99.6%, 100.0% and 100.0% of our total revenue for the years ended December 31, 2019, 2020 and 2021, and the six months ended June 30, 2022, respectively. We expect that these three games will continue to generate a major portion of our revenue for the coming one or two years during the early growth stage after the respective launch of each of our new mobile sports games in the pipeline. Should there be (i) any decline in the number of users of these games, (ii) any failure by us to improve, upgrade, enhance or optimize these games in a timely manner or at all, (iii) any lasting or prolonged server interruption to these games due to network failures or other reasons, or (iv) any other adverse developments to these games, our business, financial condition and results of operations could be materially and adversely affected.

We may fail to extend the lifecycle of our existing mobile sports games successfully.

Our games are subject to limited lifecycle which typically comprises five stages: (i) the launch stage; (ii) the early growth stage during which the revenue generated by the game will experience rapid growth; (iii) the stable and mature stage when the game has gradually gained its user base and solidified its market share and the revenue generated by the game tends to be growing or become stable; (iv) recession stage during which some less loyal users begin to lose interest in the game and there may not be enough new users to supplement the user base, such that the number of active users and revenue generated from the game tend to decrease or to stay at a relatively inactive or low level; and (v) final stage when the revenue of the game may fail to cover its operating costs or shows the trend of loss. As of the Latest Practicable Date, our *NBA Basketball Master* (NBA籃球大師) and *Football Champion* (最佳11人 — 冠軍球會) were at the stable and mature stage and our *Football Master* (足球大師) just stepped into the recession stage. As of the Latest Practicable Date, our *Football Master* (足球大師), *NBA Basketball Master* (NBA籃球大師) and *Football Champion* (最佳11人 — 冠軍球會) are expected to have a remaining lifecycle of approximately 19 months, 57 months and 88 months, respectively. Subsequent to the launch in July 2022, our *Total Football* (最佳球會) is expected to have a remaining lifecycle of approximately 115 months as of the Latest Practicable Date. We cannot assure you that we are able to extend the lifecycle of our existing mobile sports games successfully or our games can be operated in line with our expected lifecycle given that our users may lose interest in these games over time as a result of the changing market trends or user

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preferences. In particular, *Football Master* (足球大師) just stepped into the recession stage as of the Latest Practicable Date, after which we may not be able to maintain its attractiveness to our users and may therefore experience a significant decrease in revenue or a loss from the game. If these games become less popular or if the revenue generated from these games decline in any short or extended period of time for any reason, our business, financial condition and results of operations could be materially and adversely affected.

We may not be able to anticipate or successfully adapt to new trends and may face increasingly intense competition in the mobile game industry which makes it difficult for us to evaluate our business and prospects.

The global mobile game industry (including in the PRC) is evolving rapidly and is particularly subject to changes in technology. We constantly need to adapt to new industry trends, including changes in user preferences, new game content requirements, new distribution models, new technologies and new governmental policies and regulations. For instance, we need to anticipate and assess the feasibility and market acceptance of emerging new technologies such as virtual and/or augmented reality games which deliver an immersive gameplay experience. Furthermore, government authorities or industry organisations may adopt new standards that apply to game development. We will need to continue to invest significant resources in game and infrastructure development to keep up with the pace of technological advancements. However, the success of game development is inherently uncertain, and our significant investment in technology may not generate anticipated benefits. If we lag behind our competitors in adopting new technologies or standards, our existing games may lose popularity, and our newly developed games may not be well received by our users. In addition, we may incur significant cost overruns in game testing, optimisation and publication due to adoption of unanticipated new technologies, which would have an adverse impact on our business, financial condition and results of operations.

Moreover, our ability to plan for game development, distribution and promotional activities will be significantly affected by our ability to anticipate and adapt to the rapid changes in the demographics, tastes and preferences of our existing and prospective users. Other forms of entertainment may emerge and become popular at the expense of mobile games. Although mobile games are becoming increasingly popular in China and globally, there is no assurance that they will continue to sustain their popularity. Any decline in the growth of market size of the mobile games industry in China and globally or in the popularity of mobile games in general, or our games in particular, would harm our business, financial condition and results of operations. Our failure to successfully anticipate or adapt to new industry trends may materially and adversely affect our business, financial condition and results of operations.

According to the Frost & Sullivan Report, as of December 31, 2021, there are approximately 480 companies in the online sports game market in the PRC. The market is fragmented with many relatively small companies with insignificant market influence and is dominated by the largest market player with approximately 19.6% of market share in terms of revenue from online sports game in 2021. In particular, China’s mobile game industry is evolving rapidly and is highly competitive. Moreover, the mobile games industry’s relatively low entry barriers result in easy access by new market entrants in recent years. We expect that this trend will continue and believe that the mobile game offering will continue to proliferate. In addition to domestic competition, we also face competition from overseas game developers and publishers when their games are localized and published in the PRC. We also compete with other forms of entertainment, such as traditional real-world sports games, movies and dramas, which have much larger and more established markets, and other types of mobile apps, such as social media platforms, music and video platforms and live broadcasting platforms.

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We compete primarily on a number of factors, including development capabilities, ability to secure suitable IP right licenses, utilization of advanced technology, ability to prolong the lifecycle of our games, user base and engagement, marketing and promotional strategies, relationship with major third-party distribution platforms and publishers, and monetization tactics. Other mobile game companies may have a larger user base, more operating experience as well as financial, marketing and other resources than we do, which may offer them an advantage in developing, publishing and operating games, conducting marketing and promotion activities and hiring talents. Compared to the global leading competitors, we may have a less recognised brand name. This may place us at a less advantageous position in attracting users and sustaining their interest in our games when competing with the market leader or other game operators that have greater brand recognition given their dominant market share and position. As competition intensifies, we may have to offer more incentives to our users as well as to the partners with which we cooperate, including third-party distribution platforms, payment vendors and publishers, which could adversely affect our profitability. If we fail to compete cost-effectively or at all, our market share could decline and our business, financial condition and results of operations could be materially and adversely affected.

We may be affected by the downward pressure on the global mobile game market, which may cause fluctuations and temporary adverse effects on our financial performance and business operations.

According to the Frost & Sullivan Report, the global mobile game market witnessed a stable growth with the market size achieving a CAGR of 18.6% from 2016 to 2021. However, such growth of the global mobile game market may not be sustained and is subject to uncertainty. Due to the relaxation of pandemic control measures on a worldwide scale, a decline in consumer spending on in-app purchases in our major markets such as the United States, Japan and the PRC due to the economic downturn, and a rise in advertising costs, the global mobile game market may be exposed to downward pressure in the short term. As such, although the market size of global mobile game market increased from 2016 to 2021, there is no assurance that the global mobile game market will continue to grow at a similar rate or at all. Any downward pressure on the global mobile game market may cause fluctuations and temporary or long-term adverse effects on our financial performance and business operations.

If we fail to develop new games successfully or officially launch new games according to the contemplated timetable or if at all or we officially launch our new games at the same time as other popular games released by third parties, our business, financial condition and results of operations could be materially and adversely affected.

As of the Latest Practicable Date, we had a pipeline of three new mobile sports games, namely, *MLB Baseball Master* (MLB棒球大師), *NBA Basketball Action* (NBA操作籃球), and *NFL American Football Master* (NFL橄欖球大師), which are expected to be launched in December 2022 or January 2023, the second half of 2023 and the second half of 2024, respectively. We may fail to develop our new games in the pipeline successfully. Also, the timing of official game launch of these new games in our pipeline has a significant impact on their respective performance and popularity. We cannot assure you that we will be able to develop our new games successfully or officially launch new games as scheduled or at all. A number of factors, including technical difficulties, insufficient human, marketing or other resources, failure to complete the necessary registration and obtain approval from the relevant PRC or overseas government authority, poor acceptance of or interest in the new games among users during the testing phase and adverse developments in our relationship with our business partners such as the IP right holders of the renowned sports leagues, sports associations or sports clubs, could result in our failure to develop our new games successfully or delays in the official launch or even prevent us from officially

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launching our new games. If we fail to develop our new games successfully or officially launch new games according to the contemplated timetable or at all, we may disappoint our users, fail to meet the targets for our anticipated financial and operating results or lose our market position to our competitors, thus our business, financial conditions and results of operations could be materially and adversely affected.

Moreover, if we officially launch our new games at the same time as other popular games released by third parties, the competition may make it difficult for us to attract users to our games, and our third party marketing channels and distribution platforms may commit fewer resources to market and promote our games.

We may be exposed to risk of cannibalization among our existing and/or new mobile sports games in the pipeline.

Our *Total Football* (最佳球會) and three new mobile sports games in the pipeline, namely, *MLB Baseball Master* (MLB棒球大師), *NBA Basketball Action* (NBA操作籃球) and *NFL American Football Master* (NFL橄欖球大師), are categorized as sports action simulation games. Despite some overlapping features between sports action simulation games and sports management simulation games, our Directors believe that they are not in direct competition primarily due to their key differences in core gameplay to target a different user group market and hence there will be no significant potential negative cannibalization impact between our existing sports management simulation games and our new sports action simulation games in the pipeline.

Similarly, despite that both of our existing games, *Football Master* (足球大師) and *Football Champion* (最佳11人 — 冠軍球會) are both football-themed sports management simulation games, our Directors believe that there is a low risk of cannibalization given our Group’s strategic differentiation in their core gameplay and target user groups. Also, their different launching time may give rise to a complimentary effect to the extent that the less loyal users, for instance users with relatively less interest in the core gameplay of *Football Master* (足球大師), can be captured by *Football Champion* (最佳11人 — 冠軍球會).

However, we cannot rule out the possibility that our new games in the pipeline may, to a certain extent, have a cannibalization effect among themselves and/or on our existing games, which could in turn make our existing games less attractive to our users such that the paying users of our existing games may choose to spend less on purchasing in-game virtual items. In that case, our business, financial condition and results of operations may be adversely affected.

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

During the Track Record Period, we mainly developed mobile sports games in-house. As of the Latest Practicable Date, our game portfolio consisted of four mobile sports games, all of which were developed in-house. We have three new mobile sports games in our game pipeline, which are also in the process of development by our in-house research and development team. To be successful in developing new games, we rely largely on our ability to:

- attract, retain and motivate talented research and development personnel;
- generate ideas that can translate into engaging and commercially successful games;
- track and adapt to rapidly changing technologies and mobile sports game market trends;

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- continually innovate in response to evolving preferences and demands of our users;
- effectively monetize games without degrading the gameplay experience for our users;
- organize efficient game testing;
- effectively execute our game development plans; and
- build and maintain strong relationships with partners.

In order to attract, retain and motivate talented research and development personnel, we have been offering competitive compensation to talented candidates in line with the prevailing market rate. During the Track Record Period, our costs on employee benefits and salaries for research and development staff accounted for approximately 89.2%, 90.2%, 88.6% and 86.9% of our total research and development expenses, which increased from approximately RMB35.8 million in 2019 to RMB55.6 million in 2021 at a CAGR of approximately 24.6% and from approximately RMB23.5 million for the six months ended June 30, 2021 to approximately RMB32.6 million for the six months ended June 30, 2022. According to the Frost & Sullivan Report, the average salary level of research and development staff in the online game market in the PRC increased at a CAGR of 9.2% from 2016 to 2021 and is expected to increase at a CAGR of 6.4% from 2021 to 2026. Therefore, we may incur significant expenses in offering competitive salary package to our research and development personnel, which may in turn pile up our total research and development expenses. If we are unable to effectively control our research and development expenses, our business, financial condition and results of operations could be materially and adversely affected.

If we fail to renew the IP licensing agreements with the IP right holders or obtain new IP right licenses, the quality and appeal of our games may significantly decrease.

During the Track Record Period, we had successfully obtained IP right licenses from sports league, sports associations and sports clubs, including NBA, NBPA, FIFPro, A.C. Milan, Liverpool F.C., F.C. Barcelona, F.C. Internazionale Milano, Juventus F.C., F.C. Bayern Munich, Manchester City F.C., Real Madrid C.F., Paris Saint-Germain F.C. and Borussia Dortmund. Our business depends largely upon our IP licensing agreements with the IP right holders. This, in turn, requires that we retain and renew our existing IP right licenses and obtain new IP right licenses from the relevant IP right holders for the development of new mobile sports games. In particular, we rely on the IP licensing agreements to use the images, avatars and/or logos of athletes and sports clubs or teams in our mobile sports games. Failure to renew or retain these IP right licenses may significantly lower the quality and appeal of our games, which may materially and adversely affect our user retention and expansion, and materially and adversely affect our business, results of operation and financial condition. Our retention and renewal of these IP right licenses depend on our relationship with the relevant internationally renowned IP right holders which may have a higher bargaining power than us and our performance under the licensing arrangements, some of which provide for licensing fees with arrangement of revenue sharing, as well as the results of bidding processes for our new or existing IP right licenses.

We cannot assure you that we will be able to retain or renew our existing IP right licenses or obtain new IP right licenses on exclusive or favourable terms, or at all. Further, in the event of any expected or unexpected disruption to our negotiation or formalization of the relevant IP right licensing agreement, we may not be able to renew or obtain the IP right licenses in a timely manner, which may result in an overall delay in our development plan for the existing and new games. In particular, the IP right licenses for our four existing mobile sports games, namely, *Football Master*

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(足球大師), *NBA Basketball Master* (NBA籃球大師), *Football Champion* (最佳11人 — 冠軍球會) and *Total Football* (最佳球會) are significant to our business. The terms of our IP right licenses will expire. If we are unable to retain, renew or acquire our IP right licenses with those relevant IP right holders, our business, financial condition and results of operations will be materially and adversely affected.

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

We have a short history of operating our mobile games upon which to evaluate the viability and sustainability of our business. For the three years ended December 31, 2021 and the six months ended June 30, 2022, our total revenue generated amounted to approximately RMB378.6 million, RMB404.7 million, RMB459.9 million and RMB294.8 million, respectively. Our growth rate during the Track Record Period should not be considered indicative of our future performance. Instead, you should consider our future prospects in light of the risks and uncertainties regarding our ability to (i) manage our expanding business, including attracting and retaining talented employees; (ii) continue to release new games and enhance existing games to attract and retain users and increase the number of paying users and ARPPU; (iii) maintain and strengthen our collaboration with third-party distribution platforms and third-party publishers to deepen the penetration in existing markets and expand into new markets; and (iv) anticipate and adapt to evolving user preferences, industry trends, market conditions and competition. 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.

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

The online game industry in China is highly regulated. Under the current PRC regulatory scheme, a number of regulatory agencies, including but not limited to the NPPA, the MCT and the MIIT, jointly regulate the internet industry, including the online game business. Game operators and publishers must obtain various government approvals and licenses for web and mobile businesses. As we currently derive a significant portion of our revenue and cash flow from our PRC Operating Entities, the PRC Operating Entities are required to obtain and maintain the applicable licenses and approvals from different regulatory authorities in order to conduct the current operations.

We are required to obtain the ICP License for the provision of value-added telecommunications services which is essential to the operation of our business in China. This is a license subject to regular government review or renewal. Although we did not have incidents of material non-compliance with respect to the aforementioned licenses during the Track Record Period, we cannot assure you that we can successfully update or renew the licenses required for our business in a timely manner or that these licenses are sufficient for us to conduct all of our present or future business.

We may also be required to obtain the Internet Cultural Operation Licenses for the operation of online games. However, in accordance with the Notice of the General Office of the Ministry of Culture and Tourism on Adjusting the Scope of Examination and Approval regarding the Internet Cultural Operation License to Further Regulate the Approval Work (《關於調整〈網絡文化經營許可證〉審批範圍進一步規範審批工作的通知》) released on May 14, 2019 and the Decision of the Ministry of Culture and Tourism on revocation the Interim Measures for the Administration of Online Games and the Measures for Planning and Administration of Tourism Development (《文化和

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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》) circulated by the MCT on July 10, 2019, the MCT no longer assumes the responsibility for the supervision of online game industry and Internet Cultural Operation Licenses regarding online games, so the Internet Cultural Operation Licenses regarding online games will not be renewed by the relevant cultural and tourism department correspondingly. As of the Latest Practicable Date, no new law, regulation or official guideline has been promulgated to specify which governmental authority would undertake such supervision responsibility, therefore whether our Internet Culture Operation Licenses should and how our Internet Culture Operation Licenses can be renewed are subject to the introduction of any new law, regulation and/or supervision requirement by the PRC regulatory authorities in the future, if any. We cannot predict when and what new rules will be promulgated to regulate the online game industry and we cannot assure you that we will be eligible to obtain approvals, authorisations or new licenses for our online game business in a timely manner according to the future laws and regulations, and we cannot assure you that these future laws and regulations will not have any negative impact on our operations, including increasing our compliance costs and limiting our ability to launch and operate new games.

In order to publish and distribute mobile games in overseas markets, it may be necessary for mobile game companies to obtain, renew or retain the relevant licenses, permits or approvals via local third-party agents to comply with the applicable laws and regulations for such publication and distribution. However, as the relevant laws and regulations in overseas markets may not be simple and straightforward, and that we have no physical presence in overseas markets, it may not be possible for us to ensure that the local third-party agents can timely obtain, renew or retain all the relevant licenses, permits or approvals in overseas markets or that they would comply entirely with all the relevant laws and regulations of overseas markets for the publication and distribution of our mobile games, or at all. Failure to comply with the relevant applicable laws and regulations for the publication and distribution of our mobile games in overseas markets may subject our Group to fines and other administrative penalties imposed by those government authorities.

The regulatory environment applicable to our business in the PRC and overseas is complex, and many of the laws and regulations are unsettled and still developing and new laws and regulations may be adopted or amended from time to time. We cannot assure you that we or our local third-party agents 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’ implementation and interpretation of these laws and regulations. If we or our local third-party agents fail to obtain, renew or maintain any of the required licenses or approvals or make the necessary filings in a timely manner or at all, 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. Any penalties arising from our violation of local applicable laws may disrupt our business operations and materially and adversely affect our business, financial condition and results of operations.

It is possible that a number of laws and regulations may be adopted or construed to apply to us in the jurisdictions in which we operate that could restrict the online game industries, including Internet information security, privacy protection, juvenile and minor protection, advertising, taxation, content suitability, copyright, distribution and antitrust. Furthermore, the growth and development of electronic commerce and virtual items may prompt calls for more stringent consumer protection laws that may impose additional burdens on companies conducting business through the internet and mobile devices such as ours. We anticipate that scrutiny and regulation of our industry will increase, and we will be required to devote legal and other resources to addressing such regulation. Also, we might be required to seek additional licenses, authorisations or approvals from relevant regulators, the granting of which may be dependent on us meeting certain capital and other requirements and we may be subject to additional regulation and supervision, such as reporting to

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regulators, all of which could significantly increase our operating costs. Changes in current laws or regulations or the imposition of new laws and regulations in the jurisdictions in which we operate regarding these activities may lessen the growth of online game services and impair our business, financial condition and results of operations.

Our revenue from games come from sales of our in-game tokens and other virtual items. If this business model ceases to be commercially viable, our business, financial condition and results of operations could be materially and adversely affected.

As all of our games are offered under a free-to-play model, our revenue was generated from the sale of in-game tokens and other virtual items in such games. By allowing users to start the game without initial charges, this free-to-play business model enables us to quickly attract new users to experience our games and then gradually develop their interests in purchasing our virtual items. However, the success of this business model largely depends on whether we can attract users to play our games and, more importantly, whether we can successfully introduce new and popular virtual items, encourage more non-paying users to purchase virtual items and more paying users to increase their in-game spending.

It is possible that we may not be able to effectively market or price our virtual items. We might also fail to identify and introduce new and popular virtual items and appropriately price them in the future. Further, if any of the third-party distribution platforms imposes additional add-on charges on top of our in-game virtual item prices considering their local regulatory obligations and any applicable administrative charges (for example, local indirect tax and foreign exchange conversion charges, etc.) in the PRC market or any other targeted overseas markets of our Group’s games, our game users may find our in-game virtual items becoming more expensive and reduce their in-game spending, which may materially and adversely affect our business, financial condition and results of operations. In addition, our free-to-play business model may cease to be commercially viable. We cannot guarantee that a sufficiently broad base of users will continue to accept this model. It is also possible that a new revenue model will emerge given the rapidly evolving industry and competitive landscape, which may force us to transition into such new model. However, we may have difficulties in effectively adjusting to a new revenue model, as we have adopted the existing free-to-play model since our inception and we may have limited experience of the adjustment. As a result, our business, financial condition and results of operations could be materially and adversely affected due to any change in the commercial landscape in the mobile game industry.

Moreover, users are willing to pay for virtual items in the games because of their perceived value, which depends on the relative ease of securing equivalent virtual items via non-paid means within the games. The perceived value of these virtual items can be affected by an increase in the availability of free or discounted virtual items. If we fail to manage our game economies properly, users may be less likely to purchase in-game virtual items and our business may suffer as a result.

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

The launch of mobile games in the PRC is subject to game registration with the NPPA and issuance of game publication numbers by the NPPA, which resumed game registration after the national level suspension in 2018, and issued game publication numbers for a first batch of games with effective date of December 19, 2018. The game registration and issuance of game publication numbers in the PRC temporarily suspended again in July 2021 and then resumed in April 2022. It is

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thus unclear how long the authorities will take to review and approve existing game applications. Therefore, there is uncertainty as to when we will be able to complete the game registration and obtain the game publication number for our new games in the pipeline which target the PRC market and whether our pipeline games may be able to complete the game registration and obtain the game publication number at all, the failure of which could adversely and materially impact our ability to introduce new games, the timetable for us to launch new games and our business growth and prospects.

If we fail to retain and increase our user base, our business and growth may not be sustainable.

Our growth depends on our ability to attract new users and retain existing users. In order to maintain and expand our user base, we must continue to invest significant resources in research and development to strengthen our existing game portfolio and introduce high-quality new games or game update, upgrade and variations as well as different online and offline advertising and marketing strategies to promote our existing and new games. Our ability to successfully implement our gaming development and marketing strategies and launch, operate and expand our game portfolio to attract and retain users depends on many factors, including our ability to anticipate and effectively respond to changing users’ interests and preferences, to anticipate and respond to changes in the competitive landscape, to effectively market new games and implement game upgrades to strengthen geographic penetration, and to upgrade our technology and infrastructure to support and maintain system stability of our games. Any such failure may limit the growth or retention of our user base, and our business, financial condition and results of operations may be materially and adversely affected.

In addition, most of our games are based on classic sports games and have relatively long lifespan, due to a myriad of factors, such as the enduring popularity of sports which is deeply rooted in the local culture, prolonged user engagement because of the stickiness of loyal sports fans, and realistic portrayal of the real-life sports world development of our games with continuous upgrades and updates as well as our continuous efforts to extend the lifecycle of our games through various measures. However, there is no guarantee that our games will continue to maintain their current level of popularity and user engagement, or rapidly changing industry trends and user preferences will not render our games obsolete over time. As a result, our business, financial condition and results of operations may be materially and adversely affected. In addition, promoting our brand and enhancing the recognition of our brand 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.

Any negative publicity or dispute in relation to us regarding our brand, games and services, company or management could harm the image of our Company and the games we publish, which in turn may reduce the number of active users of our games. Any impact on our ability to effectively promote our brand and any significant damage to the public perception of our brand or our products and services could materially and adversely affect our prospects and results of operations.

Only a small portion of our registered users are paying users and we rely on a small group of paying users who had disproportionately contributed to a substantial portion of our revenue from games, and may not be able to monetise our users effectively.

Consistent with industry norms, a relatively small portion of our registered users and active users are paying users who contributed to the substantial portion of our revenue from games. During the Track Record Period, we derived a majority of our revenue from three of our mobile games, namely, *Football Master* (足球大師), *NBA Basketball Master* (NBA籃球大師) and *Football*

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Champion (最佳11人 — 冠軍球會). During the Track Record Period, our average MPUs for *Football Master (足球大師)* were approximately 19,900, 11,758, 7,926 and 6,214, representing approximately 7.8%, 5.7%, 4.9% and 5.7% respectively, of the average MAUs for the same periods. During the same periods, our average MPUs for *NBA Basketball Master (NBA籃球大師)* were approximately 45,313, 45,802, 32,104 and 35,450, representing approximately 8.9%, 12.6%, 6.2% and 7.1% respectively, of the average MAUs for the same periods. During the same periods, our average MPUs for *Football Champion (最佳11人 — 冠軍球會)* were approximately 1,039, 14,382, 42,803 and 57,091, representing approximately 7.6%, 14.8%, 8.5% and 8.9%, respectively, of the average MAUs for the same periods. As a result, the numbers of our cumulative registered users and active users do not necessarily indicate our actual and potential revenue generating capabilities. Our sustainable growth, therefore, largely depends on our ability to satisfy the demands of our paying users, to increase the number of paying users and to drive their in-game purchases. If we are unable to retain our paying users, attract new paying users, convert non-paying users to paying users or increase or maintain the in-game purchases by our users, our business, financial condition and results of operations may be materially and adversely affected.

During the Track Record Period, our top 1% paying users (by top up amount) contributed to approximately 71.7%, 75.0%, 71.5% and 64.7% of the total top up amount of our Group during the corresponding period, therefore, a substantial amount of revenue of our Group was generated by a significantly small group of our paying users due to our Group’s strategies to constantly engage and retain the core group of users who demonstrate high paying potential and substantial purchasing capabilities and to maximize the monetization of such paying users. As a result, our capability of generating revenue largely depends on whether we could retain such top 1% paying users. If we fail to satisfy the demands of and retain such group of paying users, our revenue and profitability may be adversely affected. For details of the breakdown of the aggregate top up amount contributed from our top 1%, 3%, 5%, 10%, 20% and 50% of our paying users (by top up amount), please refer to the section headed “Business — Our Users” in this document.

We engaged brand ambassadors to promote our mobile sports games during the Track Record Period. If any of our brand ambassadors is involved in any negative news or publicity, our brand and reputation could be harmed which may in turn affect our business, financial condition and results of operations.

We have accumulated our brand awareness among game users in the mobile game industry, which is critical to our business operations and continuous efforts to expand our user base and enhance our recognition among our business partners. Our business and financial performance is highly dependent on the strength and the market perception of our brand and the games we publish.

During the Track Record Period, we engaged brand ambassadors to promote our mobile sports games. The reputation, competency and performance of these brand ambassadors are crucial to our business. If any of our brand ambassadors is involved in any negative news or publicity, our brand, reputation and the market perception of our mobile sports games could be harmed. We may also be unable to defuse any negative publicity about us, our brand ambassadors or our mobile sports games to the satisfaction of our game users and business partners. Negative publicity about our brand or our mobile sports games may also require us to engage in defensive media campaigns, which may increase our marketing expenses and divert our management’s attention and may materially and adversely affect our brand image, business, financial condition and results of operations.

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Our business relies on our data analytical capabilities and our determination of the user relationship period, any adverse impact on which would materially and adversely affect our ability to form appropriate business strategies.

Our game design, localization and operation are data driven, focusing on the potential user base we aim to target. We rely on our data analytical capabilities to continue to develop and promote popular online games, improve user experience, and enhance our user stickiness and eventually monetization of our games. We evaluate our business operations by reviewing a broad set of game operational and user behaviour information, such as the engagement level of our games, user retention rate, as well as numbers of registered users, active users and paying users. Capturing accurate data calls for the soundness, integrity and efficiency of our information technology infrastructure. We may also collect certain data from the collaboration with our third-party payment vendors and third-party distribution platforms. Our ability to verify such data is however limited. Therefore, if our data analytical capability is compromised due to any reason, the key performance indicators we use for data analytics may not always be accurate or reflect our actual business operations. Similarly, if we incorrectly assess our user demands and interests, market conditions, or potential competitive landscape based on our data analytics, we may not be able to make appropriate operational and strategic decisions. Such failure may materially and adversely affect our business, financial conditions and results of operation.

Moreover, our determination of the user relationship period for each game is based on our best estimate on a game-by-game basis taking into account all known and relevant information at the time of assessment, including primarily the historical game data and user data of the relevant game. However, we may not always have sufficient data to determine the user relationship period, such as in the case of a newly launched game. Our determination of the user relationship period requires us to make significant estimates and assumptions. Such estimates and assumptions are subject to a number of uncertainties and may have material impact on the timing of our revenue recognition. For example, we may take a longer period of time to fully recognize revenue from in-game sales of virtual items than our initial estimated user relationship period for our games. If this occurs, our financial condition and result of operations for a given period may be materially and adversely affected.

As we expand to new geographical markets and sports action simulation game genre which we do not have sufficient experience in developing, publishing and operating, we are challenged with risks and uncertainties, which could materially and adversely affect our growth prospects.

During the Track Record Period, the majority of our revenue was derived from the sports management simulation games and from the PRC market. We intend to leverage our success in the mobile sports game market in the PRC to strengthen our market position in overseas markets, such as the United States, Southeast Asia, South Korea, Japan, Western Europe and other regions with large potential users, high consumer spending capacity, deep penetration of major sports, and high smartphone penetration rates. We also plan to diversify our game portfolio by expanding to sports action simulation games. For instance, we launched our first mobile football action simulation game, *Total Football* (最佳球會) in July 2022 and we intend to continue to develop other sports action simulation games in our pipeline, namely, *MLB Baseball Master* (MLB棒球大師), *NBA Basketball Action* (NBA操作籃球) and *NFL American Football Master* (NFL橄欖球大師). An important component of our overseas expansion strategy is to localise our games for users in those markets. We expect to continue to increase our game offerings in more language versions. Our ability to expand our business and attract users in new overseas markets and to develop new sports simulation game genres requires considerable management attention and resources and is subject to the particular challenges of, among others, conducting business in an environment of multiple languages, cultures, customs, legal systems, alternative dispute systems, regulatory systems and commercial

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infrastructures. Furthermore, we have not previously developed, published and operated baseball and American football themed games and save for *Total Football (最佳球會)*, we do not have other experience in developing, publishing and operating mobile sports action simulation games. As such, there is no assurance that our development, publication and operation of our three new mobile sports action simulation games in the pipeline will be successful. Our expansion 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;
- recruiting and retaining talented and capable management and employees with relevant overseas experience or with relevant experience in developing sports action simulation games;
- challenges caused by geographical 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 and with a better understanding of user preferences and competition with other existing sports action simulation games in the market;
- government regulation of mobile usage and online games and restrictive governmental actions, such as trade protection measures, nationalization and restrictions on foreign ownership;
- restrictions on sales or distribution of mobile content and liability for content and services regarding our games;
- business licensing or certification requirements;
- protecting and enforcing our IPs;
- 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;
- currency exchange rate fluctuations;
- adapting to local business practices;
- difficulty in staffing, developing and managing foreign operations as a result of language and cultural differences;
- protectionist laws and business practices that favour local businesses in some countries;
- political, economic and social instability;

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- developing our new games with high quality;
- continuously updating our new games in line with the market trend;
- effectively operating our new games; and
- effectively controlling our costs associated with developing, publishing and operating our new games.

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

We rely on various third-party distribution platforms and third-party publishers to distribute, publish and promote our games. Our business may be materially and adversely affected if we fail to maintain stable relationship with them.

In terms of game publishing, we mainly rely on self-publishing. We self-publish our games by (i) collaborating directly with third-party distribution platforms, such as application marketplaces in order to allow users to download our games; (ii) providing QR codes on our official website for visitors to download and install our games; and (iii) commissioning advertising and marketing agencies that publicize our games with links which would be directed to the official website of our games or various third-party distribution platforms. During the Track Record Period, we rely on various third-party distribution platforms (including Apple AppStore, Google Play, Tencent AppStore, Huawei, Xiaomi, Oppo, Vivo and TapTap) to distribute, publish and promote our self-published games. In particular, the revenue generated from Apple AppStore contributed to approximately 53.1%, 42.5%, 42.3% and 46.7% of our total revenue generated by self-publishing during the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022. To a lesser extent, we partner with third-party publishers to publish and promote our games.

We are subject to the standard service terms and conditions of these third-party distribution platforms and publishers with regard to the promotion and distribution of our games. We cannot assure you that these third-party distribution platforms and publishers will continue their relationship with us based on existing terms of services, or that these third-party distribution platforms will not further limit our access to its channels. If any of these third-party distribution platforms and publishers (i) goes out of business, (ii) discontinues its relationship with us due to any reason, such as failure to comply with any laws or regulations in any jurisdiction where our games are offered, (iii) limits our access to its channels, (iv) removes our launched game apps from their platforms, (v) modifies its terms of services or other policies, (vi) changes its fee structure, (vii) provides more favorable terms to our competitors or develop its own games, or (viii) is forced to cease the business relationship with us due to its lack of required license or permits or other regulatory compliance issues, our business, financial condition and results of operations could be materially and adversely affected.

Furthermore, any disputes with our third-party distribution platforms and publishers, such as disputes relating to game-related intellectual properties, liability limitations, risk allocation or revenue sharing arrangements, may also arise from time to time. We cannot guarantee that we will be able to resolve such disputes amicably or at all. If our collaboration with a major third-party distribution platform or publisher terminates for any reason, we may not be able to find a replacement in a timely manner or at all, and the distribution of our games may be adversely

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affected. Any failure to maintain a stable business relationship with a sufficient number of third-party distribution platforms and publishers could negatively affect the number of active and paying users, which would have a material adverse effect on our business, financial condition and results of operations.

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

We may rely on certain marketing or advertising agencies and channels in promoting our games and in acquiring new users. Our business may be adversely affected if we fail to continue our advertising and marketing spendings or maintain stable relationship with our marketing or advertising agencies.

During the Track Record Period, we engaged the marketing or advertising agencies and game ambassadors to market and promote our games as well as to acquire new users via various marketing and advertising channels. We may rely on certain marketing or advertising agencies and channels in promoting our games and in acquiring new users. For the years ended December 31, 2019, 2020 and 2021, one of our major suppliers, Supplier B, is an online advertising agency in the PRC and our transaction amount with Supplier B was approximately RMB24.5 million, RMB25.3 million and RMB27.1 million, respectively, representing approximately 9.1%, 9.0% and 8.5% of our total purchases during the same year. In addition, (i) Supplier F, one of our major suppliers for the year ended December 31, 2020; (ii) Supplier G, one of our major suppliers for the year ended December 31, 2021 and the six months ended June 30, 2022; and (iii) Supplier H, one of our major suppliers for the six months ended June 30, 2022, are all our online advertising agencies.

Besides, we incurred approximately 86.1%, 85.2%, 87.3% and 89.9%, respectively, of our total advertising and marketing expenses during the Track Record Period to promote and market our Group’s games via our top five advertising and marketing channels. For details, please refer to the section headed “Financial Information — Description of Major Components of Our Results of Operations — Selling and marketing expenses” in this document.

We cannot assure you that these marketing or advertising agencies and channels that we rely on will continue their relationship with us. If any of these marketing or advertising agencies and channels (i) goes out of business, (ii) discontinues its relationship with us due to any reason, such as failure to comply with any laws or regulations in any jurisdiction where our games are offered, (iii) limits our access to its channels, (v) modifies its terms of services or other policies, (vi) changes its fee structure, (vii) provides more favorable terms to our competitors or develop its own games, or (viii) is forced to cease the business relationship with us due to its lack of required license or permits or other regulatory compliance issues, our business, financial condition and results of operations could be adversely affected.

Furthermore, any disputes with our marketing or advertising agencies and channels, such as service fees arrangement, may arise from time to time. We cannot guarantee that we will be able to resolve such disputes amicably or at all. Any failure to maintain a stable business relationship with our major marketing or advertising agencies and channels may adversely affect our business, financial condition and results of operations.

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We are subject to credit risk associated with our trade receivables. Any payment delays or defaults from the third-party publishers, third-party distribution platforms and payment vendors may materially and adversely affect our cash flow and results of operations.

Our trade receivables mainly consist of sales proceeds that the third-party distribution platforms’ payment systems or publishers have collected from our users but not yet paid to us. We generally grant a credit term of 30 to 90 days to our third-party distribution platforms and publishers. We do not have any collateral or other credit enhancements over our trade receivables balances. Our management conducts periodic review on the aging condition of our trade receivables and evaluate the likelihood of collection based on each creditor’s situation and ability to pay in full. The carrying amount of our trade receivables was approximately RMB27.4 million, RMB20.3 million, RMB35.6 million and RMB52.3 million as of December 31, 2019, December 31, 2020, December 31, 2021 and June 30, 2022, respectively. However, there is no guarantee on the collection of amounts due from our third-party distribution platforms or publishers in a timely manner. During the Track Record Period, we recorded net impairment losses on financial assets due to estimated impairment losses on trade receivables of approximately RMB0.1 million, RMB3.8 million and RMB1.8 million for the years ended December 31, 2019 and 2020 and the six months ended June 30, 2022, respectively, while we recorded a reversal of impairment loss on financial assets of approximately RMB0.2 million in 2021. In particular, the net impairment losses on financial assets of approximately RMB3.8 million for the year ended December 31, 2020 was primarily due to the provision for impairment of trade receivables from an overdue payment by one of our historical major suppliers of an unpaid amount owed to us of approximately RMB3.7 million in 2020. During the six months ended June 30, 2022, we recorded net impairment losses on financial assets of approximately RMB1.8 million due to the provision for impairment of trade receivables from an overdue payment by one of our payment vendors, which provided online payment services after completing the relevant game registration for *Football Champion* (最佳11人 — 冠軍球會) in Vietnam, for an unpaid amount of approximately RMB1.8 million. We began our collaboration with the aforesaid payment vendor in 2021 for the introduction of the Vietnamese version of *Football Champion* (最佳11人 — 冠軍球會), and for the year ended December 31, 2021 and the six months ended June 30, 2022, the top up amount collected by such payment vendor for our game was approximately RMB1.0 million and RMB1.6 million respectively, while the trade receivables outstanding as of December 31, 2021 and June 30, 2022 was approximately RMB0.7 million and RMB1.8 million, respectively. During the Track Record Period, our average trade receivables turnover days were 35 days, 24 days, 25 days and 30 days, respectively. For more details, please see the section headed “Financial Information — Trade receivables” in this document.

Our business operations may be subject to risk of payment delays or default from our third-party distribution platforms, payment vendors and publishers. We are vulnerable to collection risks if one or more of these third-party distribution platforms, payment vendors and publishers fail to fulfil their obligations to us, including the obligation to remit our share of revenue in a timely manner. In addition, if our relationship with any of our third-party distribution platforms, payment vendors and publishers deteriorates or terminates, or if any of them experiences a decrease in their business generally or payment from paying users, we may not be able to fully recover the outstanding amounts due from them, or at all. 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.

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If we are not able to fulfill our obligation in respect of contract liabilities, our cash flow, results of operations and financial condition may be adversely affected.

We recorded contract liabilities of approximately RMB20.5 million, RMB28.9 million, RMB35.9 million and RMB42.8 million as of December 31, 2019, 2020 and 2021 and June 30, 2022, respectively. Our contract liabilities primarily consisted of the unamortized revenue from sales of in-game tokens and other virtual items for our mobile games, where there is still an implied obligation to be performed by our Group and will be recognized as revenue when all of the revenue recognition criteria are met. In the event that we might not be able to fulfill our obligation in respect of the contract liabilities, such as the termination of any of our game operation, we may be required to return the corresponding portion of payment received from these game users, which may adversely affect our cash flow, results of operations and financial condition, including our cash and liquidity position.

We may need to make allowance for impairment of prepayments, deposits and other receivables.

As of December 31, 2019, 2020, 2021 and June 30, 2022, our total prepayments, deposits and other receivables amounted to approximately RMB8.7 million, RMB12.2 million, RMB17.2 million and RMB27.1 million, respectively. Our prepayments, deposits and other receivables mainly comprised (i) prepayment for [REDACTED] expenses; (ii) prepayment for royalty fees which represented upfront license fees payable to the IP right holders before the commencement of the term of the license; and (iii) prepayment for advertising and marketing expenses.

There is no guarantee that the IP right holders and service providers will perform their obligations or in a timely manner, and we are subject to impairment risk in relation to our prepayments, deposits and other receivables. We may make allowance for impairment of prepayments, deposits and other receivables when we determine the chances of recovering the relevant amounts due when these service providers fail to perform their obligations or in a timely manner are remote. We conduct regular assessments on the recoverability of prepayments, deposits and other receivables based on, among others, our historical settlement records, our relationship with relevant counterparties, payment terms, market trends and to a certain extent, the macro-economic and regulatory environment, which involve the use of various judgments, assumptions and estimates by our management. During the Track Record Period, we did not record any significant impairment losses for prepayments, deposits and other receivables, but there is no assurance that there will be no such charges in the future. In the event that we may need to make allowance for impairment of prepayments, deposits and other receivables in the future, our business, financial condition and results of operations may be adversely affected.

Fluctuations in the changes in fair value of our financial assets at fair value through profit or loss would affect our financial results.

We have invested in wealth management products which accounted for as our financial assets at fair value through profit or loss during the Track Record Period, and would continue to invest in wealth management products that are short-term instrument and issued by licensed bank(s) or financial institution(s) in the PRC and Hong Kong subject to the relevant internal control procedures as well as reporting and approval requirements under the Listing Rules. Save for the financial assets at fair value through profit or loss balance of approximately RMB1.0 million recorded as at December 31, 2020, we recorded nil balance for financial assets at fair value through profit or loss as at December 31, 2019 and 2021 and June 30, 2022. We also recorded fair value gains on financial assets measured at fair value through profit or loss of approximately RMB526,000, RMB334,000, RMB485,000 and RMB45,000, respectively, during the Track Record Period. Please

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see note 21(a) to the Accountant’s Report in Appendix I to this document for more information. Any fair value change in our financial assets measured at fair value through profit or loss may negatively affect our financial performance. Furthermore, the fair value of financial assets that are not traded in an active market is determined by using valuation techniques which are based on the use of observable market data and rely as little as possible on entity specific estimates. Any change in the observable market data may lead to a change in the fair value of the financial assets, which in turn could negatively affect our financial conditions and results.

Our financial liability at fair value through profit or loss is subject to valuation uncertainties due to the use of unobservable inputs. Fluctuations in the changes in fair value of the financial liability at fair value through profit or loss would affect our financial results.

We recognized the Pre-[REDACTED] Convertible Bonds as a financial liability at fair value through profit or loss of approximately RMB65.6 million and RMB67.0 million as at December 31, 2021 and June 30, 2022, respectively. Please see note 21(b) to the Accountant’s Report in Appendix I to this document for more information. Any fair value change in our financial liability measured at fair value through profit or loss may negatively affect our financial performance.

We recorded net fair value losses on a financial liability measured at fair value through profit or loss (calculated by netting off the fair value loss on a financial liability measured at fair value through profit or loss by the fair value gain on extension of a financial liability measured at fair value through profit or loss) of approximately RMB1.5 million for the year ended December 31, 2021 and approximately RMB1.3 million for the six months ended June 30, 2022, respectively. Furthermore, the fair value of our financial liability is determined by valuation techniques and based on assumptions on market conditions existing at the end of the reporting period. The valuation model requires the input of subjective assumptions, including the expected volatility and risk-free rate and therefore the fair value measurement is subject to valuation uncertainties due to the use of unobservable inputs. Any change in the estimates and assumptions may lead to a change in the fair value of the financial instruments, which in turn could negatively affect our financial conditions and results.

We may need to provide impairment losses for intangible assets, which could negatively affect our results of operations and financial condition.

We recorded intangible assets of approximately RMB34.0 million, RMB26.2 million, RMB15.0 million and RMB10.8 million as of December 31, 2019, 2020 and 2021 and June 30, 2022, respectively. Our intangible assets consist of licenses and software. For further details, please refer to the section headed “Financial Information — Discussion of Certain Key Consolidated Statements of Financial Position — Intangible Assets” in this document.

However, the intangible assets are subject to impairment test whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the carrying value of our intangible assets is considered to exceed its recoverable amount and is therefore determined to be impaired in the future, we would be required to write down the carrying value or record a provision of impairment loss for these intangible assets in our financial statements during the period in which our intangible assets are determined to be impaired, and such impairment would adversely affect our results of operations and financial condition. During the Track Record Period, we did not recognize any impairment loss for intangible assets, but we cannot assure you that there will be no such charges in the future and any such impairment loss could adversely affect our results of operations and financial conditions.

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There are uncertainties regarding the recoverability of our deferred tax assets, which could adversely affect our financial condition and results of operations.

Deferred tax assets are generally recognized for all deductible temporary differences and unused tax losses to the extent that future taxable profit will be available to utilize against such asset recognized prior to their expiry. We recorded deferred tax assets of approximately RMB5.9 million, RMB5.2 million, RMB3.7 million, and RMB4.6 million, respectively as of December 31, 2019, 2020 and 2021 and June 30, 2022, respectively. For each reporting period, we evaluate our deferred tax assets to determine whether it is probable that they will be realized by assessing the likelihood on whether we will be able to recover our deferred tax assets using historical levels of income, estimates of future income, future reversal of existing taxable temporary differences, taxable income in carryback years and tax planning strategies. Please see note 2.17 to the Accountant’s Report in Appendix I to this document for further details on our accounting policy with respect to deferred tax assets. Such determination requires significant judgment from our management on the tax treatment of certain transactions as well as assessment on the probability, timing and adequacy of future taxable profits for the deferred tax assets to be recovered. If such judgments turn out to be incorrect or imprecise, we may need to adjust our tax provisions accordingly. Furthermore, we cannot predict any future movements in our deferred tax assets and to what extent they may affect our financial position in the future. Any of these events may have a material adverse effect on our financial condition and results of operations.

We may need to make allowance for impairment of contract costs, which could negatively affect our results of operations and financial condition.

As of December 31, 2019, 2020 and 2021 and June 30, 2022, our contract costs amounted to approximately RMB8.7 million, RMB11.6 million, RMB13.1 million and RMB14.9 million, respectively. Our contract costs primarily refer to incremental costs of obtaining a contract, including unamortized commission fee charged by the Platforms and unamortized revenue sharing to third-party publishers which are capitalised if they are expected to be recognized.

However, our contract costs are subject to impairment test whenever events or changes in circumstances indicate that we might not be able to fulfill our obligation in respect of the contract liabilities, however, the contract costs paid to the Platforms and third-party publishers cannot be recovered. During the Track Record Period, we did not record any impairment losses for contract costs, but there is no assurance that there will be no such charges in the future. In the event that we may need to make allowance for impairment of contract costs, our results of operations and financial condition may be adversely affected.

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

We rely on third-party payment vendors, such as Alipay, My Card, UniPin and WeChat Pay to facilitate and collect users’ payment of in-game purchases of virtual items. We are subject to various risks and uncertainties associated with these third-party payment vendors. Apart from the collection risks as mentioned above, any scheduled or unscheduled system maintenance or interruption to the ability of our users to use the services from the third-party payment vendors could adversely affect our payment collection, and in turn, our business, financial condition and results of operations. We also rely on the stability of such payment transmissions to ensure the uninterrupted payment service available to our users.

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In all online payment transactions through our third-party payment vendors, secured transmission of users’ confidential information, including credit card and bank account numbers, personal information and billing addresses, over public networks, is essential for maintaining user confidence. We do not have control over the security measures of the third-party payment vendors, and their security measures may not be adequate at present or to cope with the expected increased usage of online payment systems. We could 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.

Furthermore, our third-party payment vendors are subject to various laws and regulations governing electronic funds transfers, which could change or be reinterpreted in a way that will adversely affect their compliance. If our third-party payment vendors experience any non-compliance incidents, they may be subject to fines and higher transaction fees and even be required to cease their operations to accept online payments from our users, which in turn would materially and adversely affect our ability and process flow to monetize our users.

Unauthorized use of our intellectual property by third parties, and the expenses that we may incur in protecting our intellectual property rights, may materially and adversely affect our business and reputation.

We regard our proprietary domain names, copyrights, trademarks, patents, trade secrets and other intellectual property 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 our intellectual property rights by third parties to protect our intellectual property 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. Any failure to register trademarks or patents in any country or region may limit our ability to protect our rights in such country or region under relevant trademark or patent 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, licensees and other advisers. These agreements may not effectively prevent unauthorised 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 which limit 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, Southeast Asia, and certain other countries and regions where our games are accessible to local users may not protect intellectual property rights to the same extent as 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 intellectual property rights, other game developers may copy our ideas and designs and other third parties may infringe on our intellectual property 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, which may have a material adverse effect on our business, financial condition and results of operations.

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We cannot be certain that our business operations do not or will not infringe on any patents, copyrights or other IP right licenses held by third parties. We may incur significant legal expenses in case of third-party claims.

Due to the nature of our business as a game developer, publisher and operator, we may be subject to legal proceedings and claims relating to the intellectual property rights of third parties from time to time in the ordinary course of our business. During the Track Record Period and as of the Latest Practicable Date, the Group did not face any material IP infringement claim which would have material adverse impact on our Group’s business operations and financial performance. However, any such proceedings or actions or claims, with or without merit, could be costly and distract our management from day-to-day operations. If we fail to successfully defend against such claim or do not prevail in such proceedings, we may be prohibited from using such intellectual property rights, subject to fines and penalties, or be required to modify, optimize or cease operating our games, or satisfy indemnification obligations that we have with some of our users, or enter into royalty or licencing arrangements with licencing fees or be forced to develop alternatives. Any royalty or licencing 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 be incorporated in our games or operation 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. Such exposure to liability could result in disruptions in our business that could materially and adversely affect our financial condition and results of operations.

In addition, some of our employees were previously employed at other companies, including our current and potential competitors. We also intend to hire additional personnel to expand our research and development team. To the extent these employees were involved in the development of content or technology similar to ours at their former employers, or to the extent these employees are found to utilize intellectual property from their former employers, we may become subject to claims that these employees or we have misappropriated proprietary information or intellectual properties of the former employers of our employees. If we fail to successfully defend such claims against us, we may be exposed to liabilities which could damage our reputation and adversely affect our business, financial condition and results of operations.

During the Track Record Period, we have obtained IP right licenses from renowned sports league, sports associations and sports clubs to use their trademarks and products, including but not limited to the right to use their brand name, image of stadium, brand’s application manual, jersey, names and images of individual players so as to enable us to enrich game content, scenes, players and images. Our licensors who have licensed to us the right to use their brands and related intellectual properties may cause our Group to face claims of infringement of third parties’ intellectual property rights and claims for indemnification if such licensed intellectual properties are found to be invalid. For instance, in the event of any potential litigation between the sports leagues/sports clubs/sports associations and their respective individual athletes, such as any dispute on the ownership and use of the intellectual property rights of the sports athletes, we may be subject to legal proceedings and claims from the third parties claiming that we violate or infringe upon the trademark, copyright or other rights of the third parties. In addition, our licensors may be unaware of intellectual property registrations or applications relating to these rights that may give rise to potential infringement claims against the licensors or us. Parties making infringement claims may be able to obtain an injunction to prevent our licensors and us from using relevant intellectual properties. Intellectual property litigation is expensive and time-consuming and could divert management’s attention from our business. A successful infringement claim against our licensors or us could, among other things, result in prohibiting us from continuously promoting, using, distributing or selling our games which

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have infringed a third party’s intellectual property rights. Any intellectual property claim or litigation, regardless of whether we or our licensors ultimately win or lose, could damage our reputation and adversely affect our business, financial condition and results of operations.

We may not be able to successfully implement our business strategies.

We have been focusing primarily on mobile sports games during the Track Record Period. We plan to (i) renew existing IP right licenses and acquire additional IP right licenses from sports leagues, sports associations and sports clubs for the development of our existing and new sports games; (ii) further solidify our marketing efforts to actively promote our games to both PRC and overseas markets; and (iii) further strengthen our talent pool in order to support our development of new mobile sports games and further improve our research and development capabilities. For details, please refer to the section headed “Business — Our Strategies” in this document. However, there is no guarantee that we will be able to attract and hire more experienced and professional technical experts to join our research and development team or we may not be able to develop commercially viable games that will gain sufficient popularity, user interest and user retention, so our business plan may not be successful.

Moreover, we plan to dedicate a significant part of the [REDACTED] from the [REDACTED] to pursue our business strategies, which include substantial costs to be incurred such as employee expenses for hiring further manpower and technical experts, advertising and marketing expenses as well as expenses for renewing or acquiring further IP right licences. Failure to implement our business strategies at our planned budgets, or generate sufficient revenue to cover such costs, could substantially increase our expenses and impose negative pressure on our profit margin, cash flow and risk profit, prevent us from recouping our investment costs, hinder our ability to optimize our games to enhance user monetisation, weaken our overall competitive position, reduce our profitability and limit our growth prospects, any of which would have a material adverse effect on our business, financial condition and results of operations.

Our business is subject to seasonality and fluctuations due to opening and ending of sports seasons, which may materially and adversely affect our business, financial conditions and results of operation.

Our business is subject to seasonality and fluctuations due to the opening and ending of sports seasons. As our mobile sports games aim to mimic the real-life sports events, there may be a spike of user activity for our games during the opening of sport seasons and then there may experience a drop in user activity towards the end of the sport seasons. As real-life sports leagues, sports clubs and sports associations may also have personnel changes such as the transfer and/or recruitment of players or coaches, users who follow real life dynamic in football and basketball games closely would be expecting upgrades or updates to be made to our games during the off-seasons, when such changes will most likely occur in real life.

We cannot assure you that we will be able to upgrade our games to follow real life transfers and recruitment of players or coaches closely and that our users will not lose interest in our games during the off-seasons. If these games become less popular or if the revenue generated from these games decline in any short or extended period of time for any reason, our business, financial condition and results of operations could be materially and adversely affected.

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We may not be able to continue to use certain properties that are currently used by us.

As of the Latest Practicable Date, we leased seven properties for business and office use. The lessor with whom Wangchen Technology entered into one of its lease agreements, which is used as an ancillary studio for our research and development team to prepare 3D simulation model on sports player’s motion, cannot provide us with the relevant building ownership certificate of the leased property, and such lease agreement was not registered with the relevant PRC government authorities. As advised by our PRC Legal Advisers, there exists a risk that the lessor from whom we leased such property may not have the right to lease such property to us and if the beneficial owner of such leased property refuses to recognize the lease agreement signed between the lessor and Wangchen Technology, Wangchen Technology may not be able to continue to use the leased property and failure to register such lease agreement may lead to a maximum fine of RMB10,000 if the relevant PRC government authorities require us to rectify and we fail to do so within the specified time. For further details, please refer to the section headed “Business — Properties” in this document. In the event that we cannot continue to use the leased property, we will need to find an alternative location and relocate in a relatively short time. However, we may not be able to relocate to other premises on commercially reasonable terms, or at all. In addition, any relocation would incur additional costs or interrupt our business and operations.

Our success depends on the collaborative efforts of our management team and other key employees. If we lose their services, our business may be seriously harmed.

Our success has depended and will continue to depend upon the continued service of our senior management team and other key employees. In particular, we rely on the expertise and experience of Mr. Jia, one of our Founders, an executive Director, the chairman of our Board and the chief executive officer of our Group, Mr. Huang, one of our Founders and an executive Director, Mr. Li, our executive Director, and our dedicated senior management team which mainly consists of Mr. Zeng Ke, Mr. Guo Yuheng and Mr. Zhao Xin. Mr. Zeng Ke, our vice president of research and development who joined our Group in April 2014, is primarily responsible for project management and engine development of our Group. He plays a key role in the development of our games. Mr. Guo Yuheng, our product vice president who joined our Group in November 2018, contributed to the product development and planning of our Group. Mr. Zhao Xin, our vice president who joined our Group in April 2016, has over ten years of experience in strategy planning and management. He plays a key role in overseeing the business development for the domestic and overseas markets of our Group. In addition, as we focus on the development of mobile sports games, we need to continue to attract and retain skilled and experienced technical experts to maintain our competitiveness. Competition for management personnel and talents in the game industry is intense, as the pool of qualified candidates is limited, and it may be increasingly difficult for us to attract and retain skilled and experienced personnel. If one or more of our senior management team or key employees are unable or unwilling to continue their services with us, we may not be able to fill the vacancies with suitable candidates in a timely manner, or at all, and we may incur additional expenses to recruit and train new personnel. Our business could then be severely disrupted, and our financial condition and results of operations could be adversely affected. If any of our senior management team or key employees joins a competitor or forms a competing company, we may lose users, know-how and key personnel. Each of our senior management members and key employees has entered into an employment agreement and a confidentiality agreement with non-compete undertaking with us. However, if a dispute arises between such any senior management member or key employee and us, we cannot assure you that we would be able to enforce these confidentiality and non-compete provisions in the PRC.

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In addition, competition for game programmers and engineers with appropriate qualifications and experience is intense and may increase. Our inability to identify and recruit sufficient game programmers and engineers with appropriate qualifications and experience in a timely manner, or retain existing game programmers and engineers could have a material impact on our business, financial condition and results of operations.

Our business is subject to domestic and international 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 or we fail to comply with such laws, rules, policies and other regulations, our business, financial condition and results of operations could be materially and adversely affected.

Our business requires us to use and store in-game user behavioral data and gameplay data to analyze and improve the performance of our games and to optimize our monetization strategies. We have made our best endeavors to assure that we obtain data with the consents of relevant parties and use such data in accordance with applicable laws, regulations and rules. We may be subject to domestic and international laws relating to data privacy and 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, the Decision on Strengthening Information Protection on Networks (《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 promulgated by the Standing Committee of the National People’s Congress of the PRC on December 28, 2012, and the Regulations on Protection of Personal Information of Telecommunications and Internet Users (《電信和互聯網用戶個人信息保護規定》), which was promulgated by the MIIT and came into force on September 1, 2013, enhanced the legal protection of personal information. The 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 modified Article 253a of 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. The Standard of Information Security Technology — Personal Information Security Specification (2017 edition) (《信息安全技術個人信息安全規範》(2017年版)), which took effect in May 2018, and the Standard of Information Security Technology — Personal Information Security Specification (2020 edition) (《信息安全技術個人信息安全規範》(2020年版)), which took effect in October 2020 require personal data controller to collect information in accordance with applicable laws, and to obtain the information provider’s consent prior to collecting such data. The Cyber Protection of Children’s Personal Information (the “**Children’s Provisions**”) (《兒童個人信息網絡保護規定》), which took effect on October 1, 2019 stipulates that no organization or individual is allowed to produce, release or disseminate information that infringes upon the personal information security of children under 14. Network operators collecting, storing, using, transferring or disclosing children’s personal information are required to enact special protections for such information. The Announcement of Launching Special Crackdown Against Illegal Collection and Use of Personal Information by Apps (《關於開展App違法違規收集使用個人信息專項治理的公告》) was issued with effect on January 23, 2019 and commenced a coordinated effort among the Cyberspace Administration of China (the “CAC”), the MIIT, the Ministry of Public Security and the SAMR to combat the illegal collection and use of personal information by mobile apps throughout the PRC. On October 31, 2019, the MIIT issued the Notice on the Special Rectification of Apps Infringing Users’ Rights and Interests (《工業和信息化部關於開展App侵害用戶權益專項整治工作的通知》), pursuant to which app providers were required to promptly rectify issues the MIIT designated as infringing app users’ rights such as collecting personal information in violation of PRC regulations and setting obstacles for user account deactivation. Data privacy protection laws are rapidly evolving and likely will continue to do so for the foreseeable future. Complying with emerging and

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changing domestic and international legal requirements may cause us to incur substantial costs. If we fail to comply with applicable law, regulations and rules, we may face fines or restrictions on our business activities, or even criminal sanctions.

In addition, we are primarily dependent upon third-party distribution platforms to solicit, collect and provide us with information regarding our users that is necessary for compliance with these various types of regulations. If the third parties we work with violate applicable laws or our policies, such violations may also put our users’ information at risk and could in turn adversely affect our business, financial condition and results of operations. While our administrative systems have developed rapidly, during our earlier history, our practices relating to intellectual property, data privacy and security, and legal compliance may not have been as robust as they are now, and there may be unasserted claims arising from this period that we are not able to anticipate. Any failure or perceived failure by us to comply with our privacy policies, our privacy-related obligations to users or other third parties, or our privacy-related legal obligations, or any compromise of security that results in the unauthorized release or transfer of personally identifiable information or other user data, may result in governmental enforcement actions, litigation or public statements against us by consumer advocacy groups or others and could cause our users to lose trust in us, which could have a material adverse effect on our business, financial condition and results of operations.

Furthermore, the success of our business has been, and we expect will continue to be, driven by our ability to responsibly use the data that our users share with us for data analytics. Therefore, our business could be harmed by any significant change to applicable laws, regulations, policies or industry practices regarding the use or disclosure of data our users share with us, or regarding the manner in which the express or implied consent of users for such use and disclosure is obtained. Such changes may require us to modify our privacy policy and our games and features, possibly in a material manner, and may limit our ability to develop new games and features that make use of the data that our users voluntarily share with us.

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

Our games are subject to frequent system 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 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 lower market acceptance of our games, the occurrence of any of which could also result in legal liability to us or harm our business, financial condition and results of operation.

Any failure or significant interruption in our technology, including servers and network could impact our operations and harm our business.

The stable operation and performance of our network infrastructure and technology system are essential for our operations that they ensure smooth game functioning and uninterrupted user experience. Our technology infrastructure may in the future encounter disruptions, outages or other performance problems due to a variety of factors, including infrastructure changes, human errors or

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malfunction in software and capacity constraints. Our growing operations will place increasing pressure on our servers and network capacity as we launch more games and further expand our user base of existing games. Furthermore, our infrastructure is also vulnerable to damages from fires, floods, earthquakes, power loss and telecommunication failures. Any network breakdown or inadequacy that causes interruptions to our games or failure 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.

In addition, we rely on third-party service providers for certain key aspects of our network infrastructure, including the storage and maintenance of our leased physical servers hosted in areas possibly prone to natural disasters, such as earthquakes and hurricanes, and therefore, our network infrastructure may be vulnerable to damage. Furthermore, as we operate our games in a number of markets, we 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 remedy. If our arrangements with our data server providers or any other third party are terminated, invalidated, or modified against our interest, we may not be able to find alternative services or solutions on a timely basis or on terms favourable to us, or at all. If a particular game is unavailable when users attempt to access it or navigation through a game is slower than they expect, users may stop playing the game and may be less likely to return to the game as often, or at all.

Furthermore, our business, financial condition and results of operations will be materially and adversely affected by any potential security breach caused by hackings, which involve attempts to gain unauthorised access to our 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 to respond to security breaches in a timely manner or at all. If an actual or perceived breach of our security system occurs, users’ confidence in the effectiveness of our security measures could be harmed.

Violations of our game policies, such as sales and purchases of accounts through unauthorized third parties, may decrease the quality of our users’ gameplay experience and our revenue growth.

Certain users may cheat or otherwise exploit vulnerabilities in our games to obtain unfair advantages. These practices harm the experience of users who play fairly and may impede the users’ gameplay experience. For example, certain users may sell or transfer accounts or virtual in-game items through unauthorised third parties in exchange for real money or other real-world properties. We generate no revenue from these unauthorized transactions and we do not permit, or facilitate in any manner, these unauthorized transactions. We have game policies in place which reserve our right to impose sanctions, such as to suspend, terminate or cancel a user account if we find abnormal transactions or activities in the account. If we fail to discover and disable these practices and activities promptly or effectively, our operations may be disrupted, our reputation may be damaged and users may quit our games, which in turn may result in us losing revenue from paying users, incurring additional costs for developing technological measures to detect and combat these practices and activities, creating downward pressure on the prices we charge users for our virtual in-game items, and increasing customer service costs to respond to dissatisfied users. In addition, transactions through unauthorised third-party channels may involve fraud that is beyond our control, and we may face potential claims from our users in connection with their losses resulting

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from third parties’ fraudulent activities. Such claims, regardless of merit, may harm our reputation, divert our management’s attention and cause us additional expenses in defending against these claims.

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

We launched our user community function to create an online community for our existing users and potential users to communicate with each other and collect feedback for formulating our monetisation strategies and promotional activities. Our users also engage in highly personalized conversations when they use this function. However, we are not able to verify the comments made by our users in our application. 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. Although we screen certain words according to the lists provided by the relevant government authorities, we cannot assure you that all the sensitive information contained in our users’ or members’ conversations can be identified. In serious cases, certain 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 business, financial condition and results of operations.

We face risks related to natural disasters and health epidemics in China and other markets where we operate which could significantly disrupt our operations.

We face risks related to natural disasters and health epidemics. Our business could be materially and adversely affected by natural disasters, health epidemics or other public safety concerns. Natural disasters may give rise to server interruptions, breakdowns, system failures, technology platform failures or internet failures, which could cause the loss or corruption of data or malfunctions of software or hardware as well as adversely affect our ability to operate our games and provide services. Our business could also be adversely affected by the effects of Ebola virus disease, Zika virus disease, H1N1 flu, H7N9 flu, avian flu, SARS, COVID-19 or other epidemics, since it could require our employees to be quarantined and/or our offices to be disinfected. In addition, our results of operations could be adversely affected to the extent that any of these epidemics harms the PRC economy in general, the general consumer spending sentiment and the mobile sports game industry. Moreover, due to the outbreak of the COVID-19 pandemic, there has been suspension of sports seasons.

In response to the COVID-19 outbreak in China, the PRC government has introduced a series of measures. Business activities in China have also been temporarily disrupted. We cannot guarantee that the COVID-19 outbreak will not worsen or the suspension of business activities in China will not continue, which may, in turn, delay or negatively affect our business and those of our suppliers and other business partners.

In addition, our business, financial condition and results of operations could be adversely affected to the extent that any health epidemic harms the national economy in general. Our headquarters are located in Shenzhen, where most of our Directors, senior management and employees currently reside. Consequently, if any natural disasters, health epidemics or other public safety concerns were to affect Shenzhen or other cities in China where our other offices are located,

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our operation may experience material disruptions, such as temporary closure of our offices and suspension of service, which may materially and adversely affect our business, financial condition and results of operations.

Our limited insurance coverage could expose us to significant costs and business disruption.

We do not have any business liability or disruption insurance to cover our operations in China or overseas, including losses relating to our systems and business interruption, which, according to the Frost & Sullivan Report, is consistent with customary industry practice of online game companies 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.

On the other hand, as of the Latest Practicable Date, we have maintained certain product liability insurance for our games through external insurers. However, there can be no assurance that our product liability insurance coverage will be sufficient or that the insurers will reimburse us for losses and expenses incurred in relation to any product liability of our games in a timely manner or at all. Any events for which our current product liability insurance does not cover or for which our insurance coverage is inadequate, or for which insurers do not reimburse us in a timely manner or at all, may materially and adversely affect our business operations, financial conditions and operating results.

Our business may be subject to potential tax liabilities from overseas jurisdictions.

The international tax environment is changing, with new policy proposals and regulations at various stages of implementation around the world, dealing with, amongst other things, the digitalization of the economy. As such, it is possible that new tax regulations will be implemented in certain jurisdictions on a unilateral basis in the near future to require certain profits to be taxed in the jurisdiction(s) in which we have a market presence, including an online presence, through revised nexus and profit allocation rules. We have thus engaged independent tax advisers to review our tax exposure in certain major jurisdictions where our transactions were conducted during the Track Record Period. It is noted that during the Track Record Period, we were not subject to any material overseas tax liabilities for corporate income taxes and transaction taxes, such as value added taxes in relation to the major jurisdictions where our transactions were conducted and no material non-compliance with the relevant tax laws and regulations in these jurisdictions had been identified. For further details, please refer to “Business — Other Taxation Matters” in this document.

Even though we do not have business presence in such overseas jurisdictions, we cannot assure you that we are not subject to overseas tax regulations that may be applicable to us. In addition, changes in policy may lead to changes in tax regulations of jurisdictions relevant to our business. The increase in our tax liabilities from overseas jurisdictions as well as the imposition of new or additional taxes would increase our compliance costs, therefore materially and adversely affecting our financial condition and results of operations.

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

Internet-based business is generally not geographically bounded, which means game users from all over the world can access our games and we do not restrict access from any specific jurisdiction unless the local regulators so require. Generally, a user is required to provide certain personal information when applying for a user account, or represent that he/she is not barred from receiving our services under his/her local laws. As at the Latest Practicable Date, we are not aware of any regulatory order, nor have we received any notice from any local regulators requiring our major distribution platforms or us to restrict access to or take down our games in any specific jurisdiction. Although we do not believe the mere fact that our games are accessible to a particular jurisdiction would necessarily render us subject to the local laws and regulations, we cannot assure you that the local regulators share the same view or interpretation. As a result, if the local regulators in any specific jurisdiction place access restrictions to our games, any unsanctioned use of our services by local users may subject us to regulatory risk, including monetary penalties or injunctions, which may adversely affect our business operations.

In addition, the United States and other jurisdictions or organizations, including the European Union, the United Nations, the United Kingdom and Australia, have, through executive order, passing of legislation or other governmental means, implemented measures that impose economic sanctions against certain countries, regions, or against targeted industry sectors, groups of companies or persons, and/or organizations within such countries and regions. Business transactions denominated in USD in a Sanctioned Country are generally prohibited under the sanctions law or regulation in the Relevant Jurisdictions. During the Track Record Period, a few users of our Group’s mobile apps made a small number of low value in-app purchases on our PRC-specific versions of our games in Renminbi using accounts registered with an IP address located in Cuba, Iran or Sudan (the “**Relevant RMB Cuban, Iranian and Sudanese in-app purchases**”). Specifically, for Cuba, 17 users made in-app purchases in 2020 valued at RMB1,091. For Sudan, 13 users made in-app purchases in 2019 with a total value of RMB150, and six users made in-app purchases in 2020 with a total value of RMB48. For Iran, three users made in-app purchases in 2019 with a total value of RMB66. As advised by our International Sanctions Legal Advisers, we did not violate the relevant sanctions as a result of any Primary Sanctioned Activity and Secondary Sanctionable Activity for the purpose of the guidance letter HKEX-GL101-19 issued by the Stock Exchange given that, during the Track Record Period, (i) we had not engaged in Primary Sanctioned Activity as we had no USD-denominated business activities in a Sanctioned Country or (1) with; or (2) directly or indirectly benefiting, or involving the property or interests in property of, a Sanctioned Target, that caused our Group to violate applicable International Sanctions; (ii) as mentioned above, the Relevant RMB Cuban, Iranian and Sudanese in-app purchases involved users who, based on their registered IP address, appear to have been located within Cuba, Iran and Sudan when they made in-app purchases using PRC-specific versions of our games with RMB payments; and (iii) our business activities were not targeted by extra-territorial provisions of sanctions law or regulation in the Relevant Jurisdictions. Therefore, we were not subject to any material contingent liabilities in relation to the Primary Sanctioned Activity or Secondary Sanctionable Activity during the Track Record Period. For more information, please refer to the section headed “Business — Business Activities in Countries subject to International Sanctions” in this document.

However, we cannot predict the interpretation or implementation of government policy at the U.S. federal, state or local levels or any policy by the EU, Australia, the United Nations, the United Kingdom and other applicable jurisdictions with respect to any current or future activities by us or our affiliates or third-party suppliers in the Sanctioned Countries and with Sanctioned Persons. We have no present intention to undertake any future business that would cause us, the Stock Exchange, [REDACTED], [REDACTED], or our Shareholders or [REDACTED] to violate or become a target

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of sanctions laws of the U.S., the EU, Australia, the United Nations or the United Kingdom. However, we can provide no assurances that our future business will be free of risk under sanctions implemented in these jurisdictions or that we will conform our business to the expectations and requirements of the U.S. authorities or the authorities of any other government that do not have jurisdiction over our business but nevertheless assert the right to impose sanctions on an extraterritorial basis. In addition, because many sanctions programs are evolving, new requirements or restrictions could come into effect which might increase scrutiny on our business or result in one or more of our business activities being deemed to have violated sanctions, or being sanctionable. Our business and reputation could be adversely affected if the government of the U.S., the EU, Australia, the United Nations, the United Kingdom or any other governmental entity were to determine that any of our activities constitutes a violation of the sanctions they impose or provides a basis for a sanctions designation of our Company.

We may experience transfer pricing risk.

During the Track Record Period, our operations were mainly based in the PRC. From January 1, 2019 to June 30, 2021, the principal business of our Group, including development, publishing and operation of mobile games were carried out through Wangchen Technology in the PRC. Gala Sports HK mainly acted as the contracting party with overseas IP right holders and third-party distribution platforms for the collection of payments from overseas users. Given that Gala Sports HK mainly functioned as the contracting party for overseas market and received various types of services provided by Wangchen Technology, such as game operation services, the intercompany service fees were charged by Wangchen Technology to Gala Sports HK to compensate the service costs incurred by Wangchen Technology. Such intercompany service fees charged by Wangchen Technology to Gala Sports HK for the game operation services provided by Wangchen Technology was regarded as our intra-group transactions relating to our transfer pricing arrangement during the period from January 1, 2019 to June 30, 2021. From July 1, 2021 to June 30, 2022, upon the implementation of the Contractual Arrangements, WFOE undertook the technical services. Wangchen Technology then functioned as a game operator by distributing mobile games to the PRC domestic market and contributing IP right licenses developed as of June 30, 2021 to our Group’s business. Gala Sports HK continued to act as the contracting party with the overseas IP right holders and third-party distribution platforms to collect payments from overseas users. In view of the above operational changes, the intercompany services fees were charged by WFOE to Gala Sports HK and Wangchen Technology to remunerate WFOE for its contributions made to our Group’s PRC and overseas business through game development, and royalty fees were charged by Wangchen Technology for granting Gala Sports HK the right to use the trademark and copyright of the mobile sports games developed as of June 30, 2021 for our Group’s overseas business. Therefore, these intercompany service fees and royalty charges were regarded as our intra-group transactions relating to our transfer pricing arrangement from July 1, 2021 to June 30, 2022.

Based on the transfer pricing review and as advised by our independent transfer pricing consultant, our Directors are of the view that (i) there is no need for any transfer pricing adjustment or provision within our Group, and that the transfer pricing risks of being challenged or investigated by the relevant tax authorities are relatively remote; (ii) our Group is in compliance with the applicable transfer pricing laws and regulations in both Hong Kong and the PRC; and confirmed that (iii) our Group’s transfer pricing arrangements have not been challenged or investigated by any relevant tax authority in Hong Kong or PRC during the Track Record Period and up to the Latest Practicable Date. However, our Group’s tax position may be subject to review and possible challenge by the relevant government authorities and any possible change in laws. In the event that our Group’s tax position is subject to review and possible challenge by the Hong Kong and PRC tax authorities or there is a change in the tax policy and relevant tax laws in these countries and regions,

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it may adversely affect our Group’s financial position and results of operation. There can be no assurance that our Group will not be found to be operating in breach of the relevant transfer pricing-related laws, or that such laws will not be modified, which, as a result, may require changes to our Group’s transfer pricing practices or operating procedures. Any determination of income reallocations or modifications of the relevant transfer pricing-related laws could result in an income tax assessment and other relevant charges on the portion of income deemed to be derived from the taxing jurisdiction that modified its relevant transfer pricing-related laws. For further details of our transfer pricing arrangements and the assessment conducted by our independent transfer pricing consultant on the intragroup transactions, please refer to the section headed “Business — Transfer pricing arrangements” in this document.

RISKS RELATING TO OUR CONTRACTUAL ARRANGEMENTS

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 PRC Operating Entities.

We are a company incorporated in the Cayman Islands and our wholly-owned PRC subsidiary, WFOE is considered as a foreign-invested enterprise. The PRC government prohibits foreign investment in internet cultural activities and restricts foreign investment in value-added telecommunications. For more details on the restrictions please see “Regulatory Overview — Regulations relating to value-added telecommunication services” and “Regulatory Overview — Regulations on online games publishing and operation” to this document. Due to these restrictions and in order to comply with PRC laws and regulations, we conduct our business in China through our PRC Operating Entities. Although we do not have any shareholding interest in our PRC Operating Entities, we are able to exercise effective control over them and receive substantially all of the economic benefits of their operations through the Contractual Arrangements with our PRC Operating Entities and their shareholders. For more information of the Contractual Arrangements, please see the section headed “Contractual Arrangements” in this document.

Our PRC Legal Advisers are of the opinion that each of the agreements underlying the Contractual Arrangements (i) taken individually and collectively, are legal and valid, (ii) do not violate the articles of association of each of WFOE, Wangchen Technology and Moji Technology, and (iii) are legally binding on the parties of each of the agreements underlying the Contractual Arrangements in accordance with their terms and provisions under applicable PRC laws and regulations, except for the dispute resolution provisions of the Contractual Arrangements regarding the remedies that may be awarded by the arbitration tribunal and the power of courts in Hong Kong and the Cayman Islands to grant interim remedies in support of the arbitration may not be recognized or enforced by PRC courts, and (iv) each of the agreements underlying the Contractual Arrangements is binding on the parties thereto and does not violate the provisions of “Violating any mandatory provisions of laws or administrative regulations”, “malicious collusion is conducted to damage others’ legitimate rights and interests” or “offending public order or good morals” as stipulated in the Civil Code of the PRC.

However, there can be no assurance that the PRC government authorities will not take a view in the future that is contrary to or otherwise different from the opinion of our PRC Legal Advisers stated above. If the PRC government finds that our Contractual Arrangements do not comply with its restrictions on foreign investment in businesses, or if the PRC government otherwise finds that we or our VIE lack the necessary permits or licenses to operate our business, or there is a possibility that

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the PRC government may adopt new laws and regulations in the future which may invalidate the Contractual Arrangements, the relevant PRC regulatory authorities would have broad discretion in dealing with such violations or failures, including, but not limited to:

- requiring the nullification of the Contractual Arrangements;
- restrict our right to collect revenue;
- imposing fines and/or confiscating any of our income generated from the operation under the Contractual Arrangements;
- revoking the business licenses and/or operating licenses of our WFOE or our PRC Operating Entities;
- discontinuing or imposing restrictions or onerous conditions on the business operations of WFOE or our PRC Operating Entities;
- imposing conditions or requirements with which we or our PRC Operating Entities may not be able to comply;
- 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 licenses or relocate our businesses, staff and assets;
- restricting or prohibiting our use of the [REDACTED] from the [REDACTED] or other of our financing activities to finance the business and operations of WFOE and our PRC Operating Entities; 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 actions could cause significant disruption to our business operations, and may materially and adversely affect our business, financial condition and results of operations. In addition, it is unclear that whether new PRC laws, rules and regulations would be introduced to impose additional requirements that may impose additional challenges to our corporate structure and Contractual Arrangements. Moreover, if the imposition of any of these consequences causes us to lose the rights to direct the activities of our PRC Operating Entities or our right to receive their economic benefits, we would no longer be able to consolidate the financial results of our PRC Operating Entities into our consolidated financial statements in accordance with HKFRS, thus adversely affect our business, financial condition and results of operations.

Our Contractual Arrangements may not be as effective in providing operational control as direct ownership and Wangchen Technology or its shareholders may fail to perform their obligations under our Contractual Arrangements.

A substantial part of our revenue and cash flow are attributed to our PRC Operating Entities. Due to PRC’s restrictions or prohibitions on foreign investment in online game operation business, we control our PRC Operating Entities and the holders of some of the key licenses required to operate our online game business in China through the Contractual Arrangements rather than direct ownership. Please see the section headed “Contractual Arrangements” to this document for more information.

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However, the Contractual Arrangements may not be as effective as direct ownership in providing control over our PRC Operating Entities. For example, Wangchen Technology and its shareholders could breach or fail to perform their obligations under the Contractual Arrangements. If we had direct ownership of our PRC Operating Entities, we would be able to exercise our rights as a shareholder to effect changes in its boards of directors of our PRC Operating Entities, 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 WFOE under the power of attorney to effect such changes, or designate new shareholders for the PRC Operating Entities.

If Wangchen Technology or its shareholders or Moji Technology breached their obligations under the Contractual Arrangements or if we lose the effective control over our PRC Operating Entities for any reason, we may have to incur substantial costs and expend significant resources to enforce those arrangements and resort to litigation or arbitration under the terms of the Contractual Arrangements and rely on legal remedies under PRC laws. For instance, if the shareholders of our PRC Operating Entities were to refuse to transfer their equity interests in our PRC Operating Entities to us or our designee when we exercise the call option pursuant to the Contractual Arrangements, or if they were otherwise to act in bad faith toward us, we might have to take legal action to compel them to perform their respective contractual obligations. Furthermore, personal liabilities of the shareholders of our PRC Operating Entities may also subject the shareholding interest they hold in our PRC Operating Entities 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 or the United States. 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 our PRC Operating Entities.

If Wangchen Technology or any of their shareholders or Moji Technology 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 and adversely affect our financial condition and results of operations.

The shareholders of our PRC Operating Entities may have conflicts of interest with us, which may materially and adversely affect our business, financial condition and results of operations.

Some of our shareholders are also shareholders of our PRC Operating Entities and thus, conflicts of interest between their dual roles in our Company and in our PRC Operating Entities may arise.

Although we have some existing protections over potential conflicts of interest between these individuals and our Company, we cannot assure you that when conflict of interest arise, these individuals will act in the best interests of our Company or that conflicts of interest will be resolved in our favour. In the event of any such conflicts of interest, these individuals may breach or cause our PRC Operating Entities to breach or refuse to renew the Contractual Arrangements that allow us to effectively control and receive economic benefits from the PRC Operating Entities. If we cannot resolve any conflicts of interest or disputes between us and these shareholders of our PRC Operating Entities, we would have to rely on legal proceedings, which may be expensive, time-consuming and could result in disruption of our business and subject us to substantial uncertainty as to the outcome of any such legal proceedings. These uncertainties may impede our ability to enforce the Contractual Arrangements with our PRC Operating Entities and their

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shareholders. If we are unable to resolve any such conflicts, or if we experience significant delays or other obstacles as a result of such conflicts, our business and operations could be severely disrupted, which could materially and adversely affect our financial condition and results of operations and damage our reputation.

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

The Contractual Arrangements are governed by PRC laws and provide for dispute resolution by way of arbitration in the PRC. The Contractual Arrangements contain provisions to the effect that the arbitral body may award remedies over the shares and/or assets of Wangchen Technology or Moji Technology, injunctive relief and/or winding up of Wangchen Technology or Moji Technology. In addition, the Contractual Arrangements contain provisions to the effect that courts in Hong Kong, the Cayman Islands and courts in other countries with jurisdiction 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 our PRC Operating Entities in case of disputes. Therefore, such remedies may not be available to us, notwithstanding the relevant contractual provisions contained in the Contractual Arrangements. In addition, our PRC Legal Advisers are of the view that, even though the Contractual Arrangements provide that overseas courts such as Hong Kong and the Cayman Islands may grant and/or enforce interim remedies in support of the arbitration, such interim remedies (even if so granted by courts in Hong Kong, the Cayman Islands or courts in other countries with jurisdiction in favour of an aggrieved party) may not be recognised or enforced by PRC courts. PRC laws generally do not allow an arbitral body to grant an award of transfer of assets of or an equity interest in our PRC Operating Entities in favour of an aggrieved party. As a result, in the event that Wangchen Technology or any of its shareholders or Moji Technology breaches any of the Contractual Arrangements, we may not be able to obtain sufficient remedies in a timely manner, and if we are unable to enforce the Contractual Arrangements, our ability to exert effective control over our PRC Operating Entities and conduct our business could be materially and adversely affected.

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

Our PRC Operating Entities hold certain assets that are important to our business operations. Our Contractual Arrangements with (i) Wangchen Technology and its shareholders and (ii) Moji Technology and its sole shareholder, Wangchen Technology contain terms that specifically obligate their respective shareholder(s) to ensure the valid existence of Wangchen Technology and Moji Technology, and that Wangchen Technology or Moji Technology may not be voluntarily liquidated. However, in the event the shareholders of Wangchen Technology breach this obligation and voluntarily liquidate Wangchen Technology or Wangchen Technology breaches its obligation and voluntarily liquidate Moji Technology, or Wangchen Technology or Moji Technology declares bankruptcy, and all or part of its assets become subject to liens or rights of third-party creditors, or is otherwise dissolved, we may be unable to continue some or all of our business operations, which could materially and adversely affect our business, financial condition and results of operations. Furthermore, if Wangchen Technology or Moji Technology undergoes a voluntary or involuntary

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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 among (i) WFOE, Wangchen Technology and the Registered Shareholders and (ii) WFOE, Moji Technology and its sole shareholder, Wangchen Technology may subject our Group to increased income tax due to the different income tax rates applicable to WFOE and our PRC Operating Entities, which may adversely affect our business, financial condition and results of operations.

Under the Contractual Arrangements, our PRC Operating Entities are required to pay to WFOE service fees that equal to the profit attributable to Wangchen Technology and Moji Technology, and any other distributions of Wangchen Technology and Moji Technology from, any of its subsidiaries in any given year but without taking into account the service fee payable under the agreement and after offsetting the prior-year loss (if any), and deducting such amounts as required for statutory reserves, necessary costs and expenditures of operations and tax of Wangchen Technology and Moji Technology and their respective subsidiaries (as the case may be) in any given year. WFOE has the right to adjust the level and/or amount of the service fees payable by Wangchen Technology and Moji Technology based on the actual service scope and with reference to the operating conditions and expansion needs of Wangchen Technology and Moji Technology. Such service fee payments to WFOE reduce our PRC Operating Entities’ taxable income and correspondingly increase the taxable income of WFOE, which, due to the different income tax rates applicable to WFOE and our PRC Operating Entities, have affected and may continue to affect our business, financial condition and results of operations, particularly, our income tax expenses and net profit on a consolidated basis.

The WFOE did not enjoy any preferential income tax treatment during the years ended December 31, 2019 and 2020. Despite that WFOE enjoyed a preferential income tax rate for the year ended December 31, 2021 and the six months ended June 30, 2022 under the “Preferential Corporate Income Tax Treatment for Qianhai Shenzhen — Hong Kong Modern Service Industry Cooperation Zone”, we cannot assure you that WFOE will continue to enjoy such preferential income tax rate. For illustrative purposes only, assuming that the Contractual Arrangements had been adopted at the beginning of the Track Record Period and the WFOE was not entitled to any preferential income tax treatment, the estimated amounts of our Group’s additional tax liabilities would be approximately RMB3.0 million, RMB2.2 million, nil and nil, respectively, for the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022. In the event that the higher income tax rate is applicable to WFOE than our PRC Operating Entities after the Contractual Arrangements in the future, if our PRC Operating Entities transfers the before-tax profits of Wangchen Technology and Moji Technology to WFOE, such transfer may result in increased income tax expenses for our Group on a consolidated basis, which may materially and adversely affect our business, financial condition and results of operations, particularly, our net profit and net profit margin.

The Contractual Arrangements entered into among (i) WFOE, Wangchen Technology and the Registered Shareholders and (ii) WFOE, Moji Technology and its sole shareholder, Wangchen Technology may be subject to scrutiny by the PRC tax authorities and any transfer pricing adjustment or any finding that we or Gala Sports HK owe additional taxes could substantially reduce our consolidated net income and the value of your [REDACTED].

Under the Contractual Arrangements among (i) WFOE, Wangchen Technology and the Registered Shareholders and (ii) WFOE, Moji Technology and its sole shareholder, Wangchen Technology, Wangchen Technology and Moji Technology will transfer substantially all of the profit

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of Gala Sports HK to WFOE (after offsetting the prior-year loss (if any), deducting such amounts as required for statutory reserves, necessary costs and expenditures of operations and tax of Wangchen Technology and Moji Technology in any given year), which will substantially reduce Wangchen Technology’s and Moji 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. In addition, under PRC laws and regulations, arrangements and transactions among related parties may generally be subject to audit or scrutiny by the PRC tax authorities within ten years after the taxable year when the arrangements or transactions are conducted. As a result, the determination of service fees and other payments to WFOE by our PRC Operating Entities 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 Wangchen Technology and Moji 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 Wangchen Technology and Moji Technology, which could in turn increase Wangchen Technology’s and Moji 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 Gala Sports HK for any unpaid taxes. Our consolidated net income may be materially and adversely affected if Wangchen Technology’s and Moji Technology’s tax liabilities increase or if it is subject to late payment fees or other penalties.

Our exercise of the option to acquire equity interests in and/or the assets of Wangchen Technology and Moji Technology may be subject to certain limitations and the ownership transfer may subject us to substantial costs.

By virtue of our Contractual Arrangements, WFOE (or its designee) has the exclusive right to purchase all or any part of the equity interests in each of Wangchen Technology and Moji Technology from its shareholder(s) for free or at nominal consideration or such minimum purchase price permitted under PRC laws and regulations, unless the relevant governmental authorities require valuation of the equity interest, the parties shall negotiate in good faith and make adjustments based on the valuation to comply with the requirements of PRC laws and regulations. WFOE also has the exclusive right to purchase all or any part of the assets in each of Wangchen Technology and Moji Technology for free or at nominal consideration or such minimum purchase price permitted under PRC laws and regulations, unless the relevant governmental authorities require valuation of the assets, the parties shall negotiate in good faith and make adjustments based on the valuation to comply with the requirements of PRC laws and regulations. In the event of such transfer, the minimum purchase permitted by PRC law may be substantially higher than the aforesaid actual capital contributions in case of purchasing the equity interests, or the net book value of relevant assets, or the competent tax authority may require Gala Sports HK (as transferor of the relevant assets) to pay enterprise income tax, value-added tax and other applicable taxes with reference to the fair value of such assets instead of the price as stipulated under the Contractual Arrangements, in which case Gala Sports HK may be subject to a substantial amount of tax and our financial condition may be materially and adversely affected.

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

On March 15, 2019, the National People’s Congress approved the Foreign Investment Law (《外商投資法》), which came into effect on January 1, 2020 and replace the trio of existing laws regulating foreign investment in China, namely, the Sino-foreign Equity Joint Venture Enterprise Law (《中華人民共和國中外合資經營企業法》), the Sino-foreign Cooperative Joint Venture Enterprise Law (《中華人民共和國中外合作經營企業法》) and the Wholly Foreign-Owned Enterprise Law (《中華人民共和國外資企業法》), together with their implementation rules and ancillary regulations. On December 26, 2019, the State Council promulgated the Implementation Rules to the Foreign Investment Law (《外商投資法實施條例》), which came into effect on January 1, 2020. The Foreign Investment Law embodies an expected PRC regulatory trend to rationalise its foreign investment regulatory regime in line with the prevailing international practice and the legislative efforts to unify the corporate legal requirements for both foreign and domestic investments. However, since it is relatively new, uncertainties still exist in relation to its interpretation and implementation. For instance, under the Foreign Investment Law, “foreign investment” refers to the investment activities directly or indirectly conducted by foreign individuals, enterprises or other entities in China. Though it, together with the Implementation Regulations on the Foreign Investment Law, both do not explicitly classify contractual arrangements as a form of foreign investment, there is no assurance that foreign investment via contractual arrangement would not be interpreted as a type of indirect foreign investment activities under the definition in the future. In addition, the definition contains a catch-all provision which includes investments made by foreign investors through means stipulated in laws or administrative regulations or other methods prescribed by the State Council. Therefore, it still leaves leeway for future laws, administrative regulations or provisions promulgated by the State Council to provide for contractual arrangements as a form of foreign investment. In any of these cases, it will be uncertain whether our Contractual Arrangements will be deemed in violation of the market access requirements for foreign investment under PRC laws. Furthermore, if future laws, administrative regulations or provisions prescribed by the State Council mandate further actions to be taken by companies with respect to existing contractual arrangements, we may face substantial uncertainties as to whether we are able to complete such actions in a timely manner, or at all. Failure to take timely and appropriate measures to cope with any of these or similar regulatory compliance challenges could materially and adversely affect our current corporate structure, corporate governance and business operations.

RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC

The rapidly evolving PRC regulatory environment of the mobile games industry could impact our ability to launch and publish new games and maintain our financial performance going forward.

(i) Anti-addiction Notice

In July 2005, the MOC and the Ministry of Information Industry of the PRC (later superseded by the MIIT) jointly issued an opinion which requires online game operators to develop systems and software for identity certification, to implement anti-addiction modifications to game rules and to restrict players under 18 years of age from playing certain games. Subsequently, in August 2005, GAPP (which is now part of the National Radio and Television Administration), or the NPPA, proposed an online game anti-addiction system that would have reduced and eliminated experience points that a user can accumulate after three and five hours of consecutive playing, respectively. In March 2006, GAPP amended its proposal to require players to register with their real names and identity card numbers and to apply the anti-addiction system only to players under 18 years of age.

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In April 2007, several governmental authorities, including the GAPP and the MOE, jointly issued the Notice Regarding the Implementation of Anti-addiction System on Online Games in Protecting the Physical and Mental Health of Minors (《關於保護未成年人身心健康實施網絡遊戲防沉迷系統的通知》) requiring all Chinese online game operators to adopt an “anti-addiction compliance system” in an effort to curb addiction to online games by minors, the Anti-addiction Notice, which is annexed to 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》). Under the anti-addiction compliance system, three hours or less of continuous play by minors, defined as game users under 18, is considered “healthy”, three to five hours is defined to be “fatiguing” and five hours or more is defined to be “unhealthy”. Game operators, including our Company, are required to reduce the value of game benefits for minor users by half when those users reach the “addiction” level, and to zero when they reach the “unhealthy” level. In July 2011, these governmental authorities further issued the Notice on Initiating the Real-name Authentication for Online Game Addiction Prevention (《關於啟動網絡遊戲防沉迷實名驗證工作的通知》), which provides, among other things, that the relevant authorities should strengthen the implementation of authentication of real names for anti-addiction system in online games (but excluding mobile games). This system allows game operators to identify which users are minors. It is unclear whether these restrictions would be expanded to apply to adult users and mobile games in the future. In addition to the provisions of the foregoing notices, the NPPA does not require mobile games to be equipped with the anti-addiction compliance system in order to be approved in practice. The Service Guidance for the Approval of Publishing Domestic Online Games (《出版國產網絡遊戲作品審批事項服務指南》) updated by NPPA in December 2019 further clarifies that, the introduction of the adopted anti-addiction system and the evidential documents of the real-name authentication procedures are required for applying for publishing online games excluding mobile names temporarily. As such, we believe that anti-addiction compliance system is not a compulsory requirement for mobile games, and therefore did not implement any anti-addiction system in our mobile game products. However, we cannot assure you that the governmental authorities will not subsequently take a view contrary to our understanding. Failure to comply with the requirements under the Anti-addiction Notice may subject us to penalties, including but not limited to suspension of our operation of online game products, revocation of the license and approvals for our operations, rejection or suspension of our applications for approvals, licenses or filings for any new game product, or prohibition from operating any new game product. Further, more stringent government regulations that may be promulgated in the future, including stricter anti-addiction rules, could discourage users from playing our game products, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

(ii) Implementation Program on Prevention of Juveniles Myopia and Online Gaming Addiction

The regulatory environment of the mobile gaming industry is evolving rapidly. On August 30, 2018, eight PRC regulatory authorities at national government level, including the NRTA, NPPA and the MOE, released the Implementation Program on Comprehensive Prevention and Control of Adolescent Myopia (《綜合防控兒童青少年近視實施方案》). As a part of the plan to prevent myopia among children, the Implementation Program on Prevention of Juveniles Myopia plans to (i) regulate the number of new online games and (ii) restrict the amount of time juveniles spend playing on electronic devices. On October 25, 2019, the NPPA promulgated the Notice on Preventing Minors from Indulging in Online Games, according to which the length of minors’ use of online games should be strictly controlled. It requires all online game users to register their identification information. The total length of time for minors to access online games must be limited on a daily basis. Every day from 22:00 to 8:00 the next day, online game companies are not permitted to

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provide game services to minors in any form. Game services provided to minors must not exceed 3 hours per day on public holidays and 1.5 hours on other days. In addition, online transactions are capped monthly at RMB200 or RMB400, depending on a minor’s age.

On August 30, 2021, the NPPA issued the Notice on Further Strengthening Regulation to Effectively Prevent Online Gaming Addiction among Minors (《關於進一步嚴格管理切實防止未成年人沉迷網絡遊戲的通知》), which took effect on September 1, 2021. This Notice further strengthens the measures on providing online game services to minors in response to the growing concern over gaming addiction among minors. It sets out a series of requirements and restrictions regarding the operation of online games, including (i) all online game companies (including platforms providing online game services) can only provide one hour of online game services to minors between 20:00 to 21:00 on Fridays, weekends and statutory holidays, and are not allowed to provide online game services in any form to minors in any other time, (ii) the requirements for real-name registration and login of online game user accounts shall be strictly implemented, (iii) publishing authorities at all levels shall strengthen their supervision and inspection of online game companies in terms of, among other situations, the implementation of the time frame and duration of online game services, the real-name registration and login, and paid services compliance, and (iv) families, schools and other social parties shall be actively guided to create a good environment conducive to the healthy growth of minors, to perform the guardianship duty to minors, to strictly enforce on minors the rules on the time frame and duration of playing online games, etc. Our Group shall make sure there are effective systems in place to prevent minors from playing games for longer than one hour or on days other than Fridays, weekends and statutory holidays. Our Group confirms that such systems are already in place as at the Latest Practicable Date. A warning pops up at the beginning of the games and users are informed of the restrictions on minors’ usage of the online game services and minors will not be able to play any of our Group’s online games for longer than one hour or outside the specified time frame on days other than Fridays, weekends and statutory holidays. As advised by our PRC Legal Advisers, our Group is currently in compliance of this Notice. Our Company believes that this Notice is not expected to have any significant impact on our Group’s business, operations and financial performance because, to the best knowledge of the Directors, most of the core paying users of our Group’s games are not minors. However, we cannot assure you that we are able to anticipate or comply with any new or potential requirements on providing online game services to minors. Any failure or perceived failure by us to comply with or to accurately anticipate the application, interpretation or legislative expansion of any new policies or regulatory requirements thereof could result in proceedings or actions against our Group by the relevant government authorities and negatively affect our business, operations and financial performance.

On March 14, 2022, the CAC published the revised Regulations on the Online Protection of Minors (Draft for Comments) (《未成年人網絡保護條例(徵求意見稿)》) (the “**Minor Protection Draft**”), which was open for public consultations. The Minor Protection Draft sets out in details the responsibilities of the online platforms, online product or service providers, personal information processors, and manufacturers and sellers of smart terminal products.

As advised by our PRC Legal Advisers, in addition to the requirements promulgated in the previous regulations such as the anti-addiction system and real-name authentication procedures, the Minor Protection Draft further stipulates that the online product or service providers shall comply with the following requirements: (i) establish a comprehensive anti-addiction policy, and promptly amend content, function or rules that may lead to minors’ addiction; (ii) prevent and discourage unhealthy values such as with excessive focus on viewership; (iii) continue to enforce the spending limits; (iv) periodically release updates on anti-addiction compliance; (v) implement game rules that

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are designed to prevent minors from addicting to online games; and (vi) implement appropriate-age reminding system, categorize games, clarify the applicable age group for the game, and label conspicuous warnings on the downloading page, user registration and login page.

If our Company fails to comply with the abovementioned requirements, the competent authorities can order us to make rectifications, issue a warning, and confiscate the illegal gains, as well as impose monetary fines between RMB100,000 to RMB1,000,000 if the illegal gains are below RMB1,000,000 or if there are no illegal gains, and monetary fines between one and 10 times the illegal gains if the illegal gains are over RMB1,000,000. If we refuse to make rectifications or the circumstances are serious, our Company may be ordered to suspend our relevant business, cease our business for rectification, close our website, or revoke our business license or relevant permits. The responsible managerial personnel and other directly liable persons of our Company could be imposed licenses monetary fines between RMB10,000 to RMB100,000. If our business licenses or relevant permits are revoked, such revoked licenses and permits cannot be reapplied within five years and the responsible managerial personnel and other directly liable persons could be banned from engaging in the business of similar online products or services for five years. However, there remain uncertainties regarding the further interpretation and implementation of the Minor Protection Draft. As of the Latest Practicable Date, the Minor Protection Draft has not been formally adopted.

(iii) Data security regulations

The CAC, the MIIT, the MPS and the SAMR jointly promulgated the Provisions on the Scope of Essential Personal Information for Common Types of Mobile Internet Applications (《常見類型移動互聯網應用程序必要個人信息範圍規定》) with effective date from May 1, 2021, which clarifies the scope of Essential Personal Information for Common Types of Applications. In relation to online game applications, the basic function and service is ‘provision of online game products and services’, where the necessary personal information is mobile phone number of registered users. In addition, internet application operators shall not refuse users from using the basic functions of the internet applications on the ground that users do not agree to the collection of unnecessary personal information. As such, online game operators shall allow users to play the games so long as the users could provide their mobile phone numbers.

On June 10, 2021, the Standing Committee of the National People’s Congress further issued the Data Security Law of the People’s Republic of China (《中華人民共和國數據安全法》) (the “**Data Security Law**”), which took effect on September 1, 2021. Under the Data Security Law, the scope of data covers a wide range of information records generated from all aspects of production, operation and management of government affairs and enterprises in the process of the gradual transformation of digitalization. We are required to, including but not limited to, (i) collect data in a legitimate and proper manner, (ii) establish and improve the whole-process of data security management rules, (iii) organize and implement data security trainings, (iv) take appropriate technical measures and other necessary measures to protect data security, (v) conduct data processing activities on the basis of the graded protection system for cybersecurity, (vi) strengthen the monitoring of the data processing activities, (vii) take remedial measures immediately in case of discovery of risks regarding data security related defects or bugs, and (viii) undertake to adopt responding measures immediately, and disclose to users and report to the competent authorities in a timely manner in case of occurrence of data security incidents.

On August 20, 2021, the Standing Committee of the National People’s Congress issued the PRC Personal Information Protection Law (《中華人民共和國個人信息保護法》) (the “**Personal Information Protection Law**”), which became effective on November 1, 2021 and sets out detailed rules on the personal information protection and relevant legal responsibilities thereunder, including

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but not limited to the scope of personal information under protection, the manner of processing personal information, the establishment of rules for processing personal information, and the individual’s rights and the information processor’s obligations in processing personal information. The Personal Information Protection Law also strengthens the penalty for illegal processing of personal information.

As advised by the PRC Legal Advisers, we may need to enhance our internal control mechanisms and incur additional costs to ensure our compliance with the relevant new or potential requirements. Any failure or perceived failure by us to comply with or to accurately anticipate the application, interpretation or legislative expansion of any policies or regulatory requirements could result in proceedings or actions against our Group by the relevant government authorities and such proceedings or actions may subject our Group to penalties, negative publicity and further cost and disruption to our business for rectifications and changes.

On December 28, 2021, the CAC and 12 other government authorities published a new version of the Measures for Cybersecurity Review ((《網絡安全審查辦法》) the “**Measures for Cybersecurity Review 2022**”), which came into effect on February 15, 2022. The Measures for Cybersecurity Review 2022 provides that the relevant operators shall apply with the Cybersecurity Review Office of CAC for a cybersecurity review under the following circumstances: (i) internet platform operators holding over one million individuals’ personal information aiming for foreign listing, (ii) operators of “critical information infrastructure” that intend to purchase internet products and services that will or may affect national security, or (iii) internet platform operators carrying out data processing that affect or may affect national security. As advised by our PRC Legal Advisers, the term “foreign listing” under Measures for Cybersecurity Review 2022 is likely to exempt listing in Hong Kong from the mandatory obligation of ex ante declaration of cybersecurity review in the absence of affecting or potentially affecting national security. However, there is not any further explanation or interpretation for “affect or may affect national security” under the Measures for Cybersecurity Review 2022, and the PRC government authorities may have wide discretion in the interpretation and enforcement of the Measures for Cybersecurity Review 2022.

On November 14, 2021, the CAC published the Regulations on Administration of Internet Data Security (Draft for Comments) ((《網絡數據安全管理條例(徵求意見稿)》) (the “**Draft CAC Regulations on Internet Data Security**”), which provides that data processors conducting the following activities shall apply for cybersecurity review: (i) merger, reorganization or division of internet platform operators that have acquired a large number of data resources related to national security, economic development or public interests affects or may affect national security; (ii) foreign listing of data processors processing over one million individuals’ personal information; (iii) listing in Hong Kong which affects or may affect national security; or (iv) other data processing activities that affect or may affect national security. As of the Latest Practicable Date, the Draft CAC Regulations on Internet Data Security have not been enacted or taken effect, and there have been no clarifications from the authorities as of the Latest Practicable Date as to the standards for determining such activities that “affects or may affect national security” and there is no timetable as to when it will be enacted. As such, substantial uncertainties exist with respect to the enactment timetable, final content, interpretation and implementation, including the standards for determining whether a listing in Hong Kong “affects or may affect national security.” On November 9, 2022, our PRC Legal Advisers conducted a phone consultation with the China Cybersecurity Review Technology and Certification Center (中國網絡安全審查技術與認證中心) (the “**CCRC**”), which is the competent authority according to our PRC Legal Advisers. The CCRC confirmed that despite that the Company possesses personal information of more than one million users, (i) the Company is not required to apply for cybersecurity review for the [REDACTED] in Hong Kong; and (ii) the Company is not bound by the requirements on cybersecurity review for Hong Kong listing under the

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Draft CAC Regulations on Internet Data Security as such regulations have not been enacted nor taken effect. The CCRC also confirmed that the Company is not required to notify the CAC of its proposed [REDACTED] in Hong Kong because (i) the Company’s current application for [REDACTED] in Hong Kong is exempt from the term “foreign listing”; (ii) the Draft CAC Regulations on Internet Data Security, which requires data processors to apply for cybersecurity review if its listing in Hong Kong will affect or may affect national security, have not been enacted nor taken into effect, and such requirement is not included in the Measures for Cybersecurity Review 2022; and (iii) the CCRC raised no objection to our assessment that considering (a) we do not possess core data, important data and we do not transfer personal information overseas; (b) our proposed [REDACTED] in Hong Kong does not involve foreign governments; and (c) the type and nature of personal information we collect are mainly related to the main business of our Company, our Directors believe that we have not involved in activities that affect or may affect national security; and (iv) according to Article 16 of the Measures for Cybersecurity Review 2022, the relevant state-level government authority will initiate cybersecurity review if it considers that issues which affect or may affect national security are involved.

As advised by our PRC Legal Advisers, the PRC government authorities may have broad discretion in the interpretation of what activities “affect or may affect national security”. As of the Latest Practicable Date, (i) we had not been notified by any PRC government authorities of being classified as a critical information infrastructure operator (關鍵信息基礎設施運營者) (“CIIO”), so we do not have to apply for the cybersecurity review which is applicable for CIIOs that procure internet products and services that affect or may affect national security; and (ii) we have not received any inquiry, notice, warning from any PRC government authorities, and have not been subject to any investigation, sanctions or penalties made by any PRC government authorities regarding national security risks caused by our business operations or the [REDACTED]. Furthermore, as to the factors set out in Article 10 of the Measures for Cybersecurity Review 2022, (i) we have not been identified as a CIIO by any relevant authority, and therefore, items (i) to (iv) of Article 10 of the Measures for Cybersecurity Review 2022 do not apply to us; (ii) as of the Latest Practicable Date to our best knowledge, no data processed by us have been included in the effective catalogue of important data or core data published by the relevant authority. In addition, we have formulated effective cybersecurity and data protection policies, procedures, and measures to ensure secured storage and transmission of data and prevent unauthorized access or use of data. During the Track Record Period, there had been no material data leakage during our business operations. Therefore, we believe that the possibility of “risk of theft, leakage or damage of core data, important data or a large amount of personal information, or illegal use of such information or illegal exit of such information” under item (v) of Article 10 of the Measures for Cybersecurity Review 2022 is remote for our business operations up to the Latest Practicable Date; and (iii) based on the consultation with the CCRC, item (vi) of Article 10 does not apply to us because listing in Hong Kong should not be deemed as listing on a foreign stock exchange. By developing, publishing and operating mobile sports games, we believe that we have not engaged in any data processing activities that affect or may affect national security and thus we are unlikely to be deemed as a data processor that affects or may affect national security. Therefore, based on the consultation with the CCRC and the above analyses, our PRC Legal Advisers are of the view and the PRC legal advisers to the Sole Sponsor concur, that even if the Draft CAC Regulations on Internet Data Security were implemented in its current form before our proposed [REDACTED], our proposed [REDACTED] is not expected to be materially and adversely affected.

In addition, if the Draft CAC Regulations on Internet Data Security were implemented in its current form, our Directors believe that our business operations and financial performance will not be materially and adversely affected and currently there are no substantive obstacles for us to fulfill

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the obligations that may be applicable to us in all material aspects, on the basis that (i) as of the Latest Practicable Date, we had not been subject to any material fine or administrative penalty, mandatory rectifications, or other sanctions by any competent authorities in relation to the infringement of cyber security and data protection laws and regulations; and there had been no material leakage of data or personal information or violation of cyber security and data protection and privacy laws and regulations by us which would have material adverse impact on our business operations; (ii) we had not been involved in any investigations on cyber security review initiated by the CAC nor had we received any inquiry, notice, warning, or sanctions in such respect; (iii) we had implemented effective cyber security and data protection policies, procedures, and measures to ensure secured storage and transmission of data and prevent unauthorized access or use of data; and (iv) we will continuously pay close attention to the legislative and regulatory development in cyber security and data protection, maintain ongoing communication with relevant government authorities and implement all necessary measures in a timely manner to ensure continuous compliance with the relevant laws and regulations. Based on the aforesaid and the consultation with the CCRC, our PRC Legal Advisers do not foresee any material legal impediment for the Group to undertake measures to comply with the Measures for Cybersecurity Review 2022 and the Draft CAC Regulations on Internet Data Security should they be adopted in the current form in all material respects.

However, the interpretation and application of these cybersecurity laws, regulations and standards are still uncertain and evolving. Accordingly, there can be no assurance that the PRC regulatory authorities will not in the future take a view that is contrary to, or otherwise different from, the above opinion of our PRC Legal Advisers which the PRC legal advisers to the Sole Sponsor concurred with. If our [REDACTED] is considered a [REDACTED] in Hong Kong that affects or may affect national security, we may be required to apply for cybersecurity review, but there can be no assurance that we are able to obtain approval from the regulatory authorities in a timely manner, or at all. Any failure to obtain such approval or clearance from the regulatory authorities could materially constrain our liquidity and have a material adverse impact on our business operations and financial results, especially if we need additional capital or financing.

Our Directors confirm that, as of the Latest Practicable Date, our Group had not received any material notice or fine from the relevant PRC government authorities in respect of our online games publishing and operations, including minor protection, data security and cybersecurity measures, in all material aspects. Also, our Directors and our PRC Legal Advisers are of the view that as of the Latest Practicable Date, the prevailing PRC regulations on online games would not have any material adverse impact on our [REDACTED] and business operations. Our Directors further consider that the prevailing PRC regulations on online games would not have any material adverse impact on our financial performance. Please refer to the section headed “Summary — Recent Regulatory Development” for more details.

The interpretation and application of these cybersecurity laws, regulations and standards are still uncertain and evolving, especially the Measures for Cybersecurity Review 2022 and the Draft CAC Regulations on Internet Data Security. We cannot assure you that relevant government authorities will not interpret or implement these and other laws or regulations in ways that may negatively affect us.

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Compliance with the laws or regulations governing virtual currency, online payment or money laundering may result in us having to obtain additional approvals or licenses or change our current business practice, or be subject to certain penalties.

On January 25, 2007, the MPS, MCT, MIIT and GAPP jointly issued a circular regarding online gambling which has implications for the use of virtual currency. The circular (a) prohibits online game operators from charging commissions in the form of virtual currency in relation to the winning or losing of games; (b) requires online game operators to impose limits on the use of virtual currency in guessing and betting games; (c) bans the conversion of virtual currency into real currency or property; and (d) prohibits services that enable game users to transfer virtual currency to other game users. On June 4, 2009, MOC and MOFCOM jointly issued the Notice on Strengthening Administration on Online Game Virtual Currency (《關於加強網絡遊戲虛擬貨幣管理工作的通知》) (the “**Online Game Virtual Currency Notice**”). The Online Game Virtual Currency Notice prohibits online game operators from setting game features that involve the direct payment of cash or virtual currency by game users for the chance to win virtual items or virtual currency based on random selection through a lucky draw, wager or lottery. Besides, the notice also prohibits game operators from issuing currency to users through means other than purchases with legal currency.

According to the Interim Administrative Measures for Online Games (《網絡遊戲管理暫行辦法》) (the “**Online Game Measures**”) that was in force from August 2010 to July 2019, an online game operator who issues or provides virtual currency trading services must obtain a license for internet culture operation from the MCT. Further, the Online Game Measures also provided, among other things, that virtual currency issued by online game operators may be only used to exchange its own online game products and services and may not be used to pay for the products and services of other entities. However, if our current or future operations are found to violate the Online Game Virtual Currency Notice, Online Game Measures or any other related regulations, we may be subject to penalties, including mandatory corrective measures and fines, and therefore our business and financial condition, operation results and business prospects may be materially and adversely affected.

Any administrative changes in the regulatory government authorities or difference in interpretation of applicable laws and regulations may impact on the market conditions which could in turn affect our business, financial condition and results of operations.

Our operations of online games are subject to the supervision and administration of multiple government authorities in the PRC. Any administrative changes in the regulatory government authorities may also impact on the market conditions which could in turn affect our business, financial condition and results of operations. In early 2018, the SAPPRFT, being the government authority responsible for granting pre-approval of publication of domestic online games, was replaced by NRTA according to the institutional restructuring plan of the State Council. Since then, it was noticed that no new game had been granted by the relevant government authority during April 2018 to December 2018, until the assessment and pre-approval procedures resumed in December 2018. It is uncertain whether there will be any suspension to the similar effect in the future. In addition, there is also uncertainty as to the application for the pre-approval requirement for any of our new games to be launched. Any further suspension, or any delay in such application process, could impact our capability of launching new games, which could materially and adversely affect our business, financial condition and results of operations.

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The trade war between the U.S. and the PRC may adversely affect our business, financial condition and results of operation.

A trade war has been initiated between the U.S. and the PRC. The U.S. government has sought to blacklist certain PRC technology companies, which would make it difficult for those companies to conduct business with U.S. enterprises. Among the blacklisted PRC technology companies, some are PRC mobile phone providers which utilise major game distribution. In complying with the U.S. government directives, some of the distribution platforms have suspended certain software and technical services to certain PRC mobile phone providers which would limit the holders of those mobile phones to access of the distribution platforms. As some of our game users would download our games through the third-party distribution platforms on those PRC mobile phones, restriction of access to the third-party distribution platforms on those PRC mobile phones may result in loss or slower growth of our user base and as a result of which our business, financial condition and results of operations could be adversely affected.

Failure to make adequate contributions to various employee benefit plans as required by PRC laws and regulations may subject us to penalties.

Pursuant to relevant PRC laws and regulations, employers in the PRC are required to make social insurance contributions and housing provident fund contributions for their employees, and entities failing to make contributions may be ordered to settle the outstanding contributions within a prescribed time limit and subject to penalties or fines. During the Track Record Period, we were not in strict compliance with the contribution requirements in relation to our employees. For details of the non-compliance incidents and the remedial measures taken, see the section headed “Business — Legal Proceedings and Compliance — Non-compliance Incidents with respect to Social Insurance and Housing Provident Fund Contributions” to this document. We cannot assure you that we will not be subject to penalties or fines imposed by the relevant PRC authorities as a result of such non-compliance incidents or be ordered to rectify such non-compliance incidents. Further, we cannot assure you that there will not be any employee complaint against us in relation to our failure to make full social insurance and housing provident fund contributions. Any such penalties, orders or complaints may harm our corporate image and may have an 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 financial condition and results of operations, and we may be liable for information displayed on, retrieved from or linked to our applications.

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 violation of PRC laws from being distributed through the internet. The MIIT, the MCT 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. It may be difficult to determine the type of content that may result in liability for us. If any of the games we offer 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 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

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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 purchases of virtual items in our games.

The performance and reliability of the telecommunications networks and internet infrastructure in China will affect our business, financial condition and results of operations.

With our headquarters and major operations based in China, we rely on wireless and landline telecommunications networks in China to conduct central management of user accounts and gameplay data, provide data transmission and communications, and monitor overall operational status of our games. The national networks in China are connected to the internet through international gateways controlled by the PRC government, which are the only channels through which a domestic user can connect to the internet. These international gateways may not support the demand necessary for the continued growth in internet traffic by users in China. We cannot assure you that the development of China’s information infrastructure will be adequate to support our operations and growth, especially when our games may need to accommodate more users as we grow our business. In addition, in the event of any infrastructure disruption or failure, we would have no access to alternative networks and services on a timely basis, if at all, which could have a material adverse effect on our business, financial condition and results of operations.

Our business, financial condition and results of operations could be affected by the economic, political and social conditions as well as government policies of the PRC.

We are primarily targeting China’s online game market and conduct a substantial part of our operations in the PRC. Accordingly, our business, financial condition and results of operations are, to a significant extent, subject to the economic, political and social conditions as well as government policies of the PRC. The PRC economy is different from the economies of other developed countries in many respects, including:

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

The PRC economy has been affected by the economic reform and is transitioning to a more market-oriented economy. PRC government has implemented economic reform measures emphasising the utilisation of market forces and the reduction of state ownership of productive assets in the development of the PRC economy. However, the PRC government still owns a substantial portion of productive assets in China. In addition, the PRC government still plays a significant role in regulating industry development and exercising control over China’s economic growth. Therefore, we cannot predict whether changes in the PRC’s economic, political, social and legal conditions and government policies will have any adverse effect on our current or future business, financial condition and results of operations. For instance, it could negatively impact our business and financial condition if the PRC government implemented a number of measures

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intended to slow down certain segments of the economy, in particular the mobile applications industry, which would decrease our users’ expense on our offerings and slowdown the expanding of our user base.

Although the Chinese economy has grown significantly in the past decades, that growth may not continue and any slowdown may have a negative effect on our business. The overall Chinese economy affects our profitability, since expenditures on online entertainment products and services such as online games may decrease in a slowing economy. Any adverse changes in economic conditions in the PRC, in the policies of the PRC government or in the laws and regulations in the PRC, could have a material adverse effect on the overall economic growth of China and investment in the online game industry. Such developments could adversely affect our business, financial condition and results of operations, lead to reduction in demand for our services and adversely affect our competitive position.

Uncertainties and changes in relation to the PRC legal system could adversely affect our business, financial condition and results of operations.

We are a company incorporated under the laws of the Cayman Islands. Our major operations are conducted in the PRC and therefore regulated by the laws and regulations of the PRC. Unlike the common law system, the PRC legal system is based on written statutes with prior court decisions and judgements having limited precedential value. Additionally, PRC written statutes are often principle-oriented and require detailed interpretations by the enforcement bodies to further apply and enforce such laws. The laws and regulations governing general economic matters and forms of foreign investment are promulgated since 1979 including laws relating to online game development and operation. However, due to the fact that these laws and regulations have not been fully developed and because of the limited volume of published cases and non-binding nature of prior court decisions, interpretation of PRC laws and regulations involves a degree, sometimes a significant degree, of uncertainty.

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. Besides, 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 the PRC versus other more developed legal systems. In any event, we may receive less favorable interpretation of laws and regulations than our competitors. These uncertainties may affect our judgement 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 the PRC may result in diversion of resources and management’s attention, and therefore materially and adversely affect our business, financial condition and results of operations. We cannot predict future developments in the PRC legal system. We may be required to procure additional permits, authorisations and approvals for our operations, which we may not be able to obtain. Our inability to obtain such permits or authorisations may materially and adversely affect our business, financial condition and results of operations.

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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, users may acquire and accumulate virtual assets, such as special items, user experience grades and other features of their avatars. Such virtual assets can be important to users and have monetary value. In practice, virtual assets can be lost for various reasons, such as through unauthorized use of the game account of one user by other users and occasionally through data loss caused by a delay of network service, a network crash or hacking activities. However, currently, there is no PRC law or regulation specifically governing virtual assets property rights, so certain general laws and regulations regarding civil rights may be applicable. Although PRC courts have issued a series of civil judgements of tort claims for virtual assets, there still is uncertainty as to who is the legal owner of virtual assets, how the ownership of virtual assets is protected by law, and whether a developer of online 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 lawsuits will not be brought against us in the future.

Based on several judgements 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 security 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.

Laws and regulations governing the internet industry and related businesses in China are evolving and may involve significant uncertainty.

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 online game industry in China, various regulatory authorities of the PRC central government, such as the State Council, the MIIT, the State Administration for Market Regulation, the MCT, the NPPA, and the MPS, are empowered to promulgate and implement regulations governing various aspects of the internet and online game industries. There exists potential inconsistencies and ambiguities in the regulations promulgated by different government authorities. Our game publisher partners may be required to obtain applicable permits or approvals from different regulatory authorities in order to provide online game services. As a result, it may be difficult to determine what actions should be taken or what omissions may be deemed to be in violation of applicable laws and regulations, and we must screen our game publisher partners’ qualifications before entering into cooperative arrangements.

Risks and uncertainties relating to PRC regulation of internet businesses include new laws, regulations or policies that may be promulgated or announced that will regulate internet activities, including online game businesses. If these new laws, regulations or policies are promulgated, additional licenses may be required for our operations. If our operations do not comply with these new regulations after they become effective, or if we fail to obtain any licenses required under these new laws and regulations, we could be subject to penalties and our business operations could be disrupted.

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There are uncertainties relating to the regulation of the internet industry in China, including evolving licensing requirements. This means that permits, licenses or operations of some of our companies may be subject to challenges, or we may fail to obtain or renew permits or licenses that applicable regulators may deem necessary for our operations. If we fail to maintain or obtain the required permits or licenses, we may be subject to various penalties, including fines and discontinuation of, or restriction on, our operations. Any penalty may disrupt our business operations and may have a material adverse effect on our business, financial condition and 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 licenses or obtain any new licenses required under any existing or new laws or regulations. There are also risks that we may be found to be in violation of existing or future laws and regulations given the uncertainty and complexity of China’s regulation of internet businesses. If current or future laws, rules or regulations regarding internet-related activities are interpreted in such a way as to render our ownership structure and/or business operations illegal or non-compliant, our business, financial condition and results of operations could be severely impaired and we could be subject to severe penalties.

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

We are exposed to currency risk resulting from foreign currency transactions and recognized assets and liabilities denominating in a currency other than RMB, which is the functional currency of the major operating companies within our Group. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the profit or loss on a net basis. Therefore, fluctuations in the exchange rate between our functional currency and the other currencies could materially impact our reported results of operations and distort period to period comparisons. During the Track Record Period, we recorded a net exchange gain of approximately RMB0.1 million, RMB0.1 million and RMB2.2 million for the year ended December 31, 2019 and 2021 and the six months ended June 30, 2022, respectively as compared to a net exchange loss of approximately RMB5.2 million for the year ended December 31, 2020. The net exchange loss of approximately RMB5.2 million for the year ended December 31, 2020 was a result of the exchange rate fluctuation between US\$ and RMB for our U.S. dollar cash deposits equivalent to an amount of approximately RMB67.4 million as at December 31, 2020.

As we expand our operations in China and overseas market, we expect to incur more expenditures and revenue denominated in RMB and U.S. dollar. However, the [REDACTED] of the

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[REDACTED] and any dividends we pay on our Shares will be in Hong Kong dollar. Fluctuations in the exchange rate between the RMB and the Hong Kong dollar or the U.S. dollar may affect the value of our [REDACTED] of the [REDACTED] and result to incur foreign exchange losses and adversely affect the value of, and any dividends issued by our PRC Operating Entities. Our currency exchange losses may be magnified by PRC exchange control regulations that restrict our ability to convert RMB into foreign currency. In addition, our financial results in Hong Kong dollar or U.S. dollar terms may be affected by appreciation or depreciation in the value of the RMB relative to the Hong Kong dollar or U.S. dollar although without giving effect to any underlying change in our business or results of operations.

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. The RMB has been unpegged from the U.S. dollar since July 2015 and, although the People’s Bank of China regularly intervenes in the foreign exchange market to limit fluctuations in RMB exchange rate, the RMB may appreciate or depreciate significantly in value against the U.S. dollar in the medium to long term. Moreover, it is possible that the PRC authorities may lift restrictions on fluctuations in RMB exchange rates and lessen intervention in the foreign exchange market in the future.

We also generate revenue from users in countries and regions outside China, who make in-game purchase in foreign currencies through third-party payment vendors. Therefore, we bear foreign exchange risk from various currency exposures which may affect our business, financial condition and results of operation.

There are limited hedging instruments available in China for reduction of our exposure to exchange rate fluctuations. The cost of such hedging instruments may fluctuate significantly over time and can outweigh the potential benefit from the reduced currency volatility. To date, we have not entered into any hedging transactions in an effort to reduce our exposure to foreign currency exchange risks. In any event, the availability and effectiveness of these hedges may be limited and we may not be able to hedge our exposure successfully, or at all.

The foreign currency conversion controlled by the PRC government may limit our foreign exchange transactions, including our ability to pay dividends and other obligations, and may affect the value of our Shares.

The PRC government imposes controls on the convertibility of the RMB into foreign currencies through PRC foreign exchange regulations. It cannot be guaranteed that under a certain exchange rate, we will have sufficient foreign exchange to meet our foreign exchange requirements. Under the current PRC foreign exchange control system, foreign exchange transactions under the current account conducted by us, including the payment of dividends, do not require advance approval from the SAFE, but we are required to present documentary evidence of such transactions and conduct such transactions at designated foreign exchange banks within the PRC that have the licenses to carry out foreign exchange business. Foreign exchange transactions under the capital account conducted by us, however, must be filed with or approved in advance by the SAFE.

Under existing foreign exchange regulations, following the completion of the [REDACTED], we will be able to pay dividends in foreign currencies without prior approval from the SAFE by complying with certain procedural requirements. However, we cannot assure you that these foreign exchange policies regarding payment of dividends in foreign currencies will continue in the future. In addition, any insufficiency of foreign exchange may restrict our ability to obtain sufficient foreign

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exchange for dividend payments to shareholders or to satisfy any other foreign exchange requirements. If we fail to obtain approval from the SAFE to convert RMB into any foreign exchange for any of the above purposes, our capital expenditure plans, and even our business, financial condition and results of operations, may be materially and adversely affected.

We rely on dividends and other distributions from WFOE 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 rely in part on dividends from WFOE 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 only out of their accumulated profits, if any, as determined in accordance with Chinese accounting standards and regulations. In addition, WFOE are required each year to set aside at least 10% of its annual after-tax profits (as determined under PRC accounting standards) into its statutory reserve fund until the aggregate amount of that reserve reaches 50% of such entity’s registered capital. These reserves are not distributable as cash dividends.

If Wangchen Technology or WFOE incurs debt on its 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.

Dividend payable by us to our foreign investors and gains on the sale of our Share may become subject to income tax under the PRC tax laws.

Under the EIT Law and its implementation rules, subject to any applicable tax treaty or similar arrangement between the PRC and your jurisdiction of residence that provides for a different income tax arrangement, PRC withholding tax at the rate of 10% is normally applicable to dividends from PRC sources payable to investors that are non-PRC resident enterprises, which do not have an establishment or place of business in China, or which have such an establishment or place of business but the relevant income is not effectively connected with the establishment or place of business. Similarly, any gain realised on the transfer of shares by such investors is also subject to 10% PRC income tax if such gain is regarded as income derived from sources within the PRC unless a treaty or similar arrangement otherwise provides. Under the PRC Individual Income Tax Law (《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.

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, the dividends we pay to our shareholders are regarded as income derived from sources within the PRC, and we may be required to withhold a 10% PRC withholding tax for the dividends we pay to our investors who are non-PRC enterprise shareholders, or a 20% 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

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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.

Gala Technology (HK) and Gala Sports HK, our Hong Kong subsidiaries, are subject to PRC withholding tax under the New Enterprise Income Tax Law and we may not be able to enjoy the preferential tax rate of 5%.

Our Company was incorporated under the laws of the Cayman Islands and indirectly hold interests in two Hong Kong-incorporated subsidiaries, namely Gala Technology (HK) and Gala Sports HK, and upon completion of the Reorganization, our Company in turn directly or indirectly hold interests in WFOE and our PRC Operating Entities. Pursuant to the EIT Law 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% 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 the Arrangement between the Mainland of the PRC and Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Incomes (《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 “Arrangement”), the arrangement shall apply to income derived on or after January 1, 2007 in mainland China, such dividend withholding tax rate is reduced to 5% 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% of the equity interest of the PRC company. According to the fourth protocol of the aforementioned treaty, effective from December 2015, the reduction will not apply if the main purpose of the production or distribution of the proceeds involved is to obtain the aforementioned (reduction) interest. The Announcement on Issues Concerning “Beneficial Owners” 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 in April 1, 2018, stipulates certain conditions under which a company may not be defined as a “beneficial owner” under the relevant tax treaty, and further requires non-resident taxpayers who wish to enjoy the treatment of “beneficial owners” under such tax treaties to submit certain report forms and materials when filing tax returns. If Gala Technology (HK) fails to preserve supporting documents when requested by the PRC tax authority to support its claim as beneficial owner to enjoy such treatment, and if our corporate and shareholding structure is viewed as deliberately arranged for acquiring the reduction interest, we may not be able to enjoy a preferential withholding tax rate of 5% and as a result dividend payable by our PRC subsidiaries to Gala Technology (HK) will be subject to withholding tax at the rate of 10%.

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% 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. On April 22, 2009, the SAT issued the Circular on Issues Concerning the Identification of Chinese-Controlled Overseas Registered Enterprises as Resident Enterprises in Accordance With the Actual Standards of Organizational Management (《關於境外註冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知》), or Circular 82, and partially amended on December 29, 2017.

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Announcement on Issues Concerning the Determination of Resident Enterprises Based on the Standards of Actual Management Institutions (《國家稅務總局關於依據實際管理機構標準實施居民企業認定有關問題的公告》), or the Circular 9, promulgated in January 2014, clarifies 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 the Bulletin of the SAT on Printing and Distributing the Administrative Measures on Income Taxes of Resident Enterprises Incorporated outside Mainland China and Are Controlled by Chinese Enterprises (Trial Implementation) (《境外註冊中資控股居民企業所得稅管理辦法(試行)》), known as Bulletin 45, effective on September 1, 2011 and amended on June 1, 2015, October 1, 2016 and June 15, 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, as well as competent tax authorities. However, Circular 82 and the Bulletin 45 apply only to offshore enterprises controlled by PRC enterprises, not those invested in or controlled by PRC individuals, like our Company. Currently there are no further detailed rules or precedents applicable to us regarding the procedures and specific criteria for determining “de facto management body” for the company of our type. We do not believe we or any of our subsidiaries registered outside of China are a resident enterprise defined and regulated by the aforesaid regulation, as none of our shareholders is a PRC company or PRC corporate group. However, it remains unclear how PRC tax authorities will determine the tax residency status of companies like us. If the PRC authorities were to subsequently determine, or any future regulation provides, that we or any of our subsidiaries registered outside of China should be treated as a PRC resident enterprise, we or such subsidiaries would be subject to a 25% EIT on our global income, which will significantly increase our tax burden and could materially and adversely affect our business, financial condition and results of operations. 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.

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.

PRC regulations over loans to and direct investments in PRC entities by offshore holding companies may delay or prevent us from using the [REDACTED] of the [REDACTED] to make loans or additional capital contributions to WFOE and/or our PRC Operating Entities.

Any funds we transfer to WFOE, either as a shareholder loan or as an increase in registered capital, are subject to approval by registration with relevant governmental authorities in China. According to the relevant PRC regulations on foreign invested enterprises, capital contributions made by an offshore holding company to its wholly-owned subsidiary, being a foreign-invested enterprise in China, require approvals from or make record filings with the MOFCOM or its local

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counterpart and register with the State Administration for Market Regulation or its local counterpart. In addition, any foreign loan procured by our PRC subsidiaries is required to be registered with the SAFE or its local branches, and our PRC Operating Entities may not procure loans exceeding the difference between its registered capital and its total investment amount as approved by or registered with the MOFCOM or its local branches. We may not obtain these government approvals or complete such registrations on a timely basis, or at all, with respect to future capital contributions or foreign loans by us to our PRC Operating Entities. If we fail to receive such approvals or complete such registration, our ability to use the [REDACTED] of the [REDACTED] to fund our operations in China may be negatively affected, which in turn could adversely affect WFOE’s liquidity and our ability to finance and expand our business.

On March 30, 2015, the SAFE issued the Circular on Reforming of the Management Method of the Settlement of Foreign Currency Capital of Foreign-Invested Enterprises (《關於改革外商投資企業外匯資金結匯管理方式的通知》), or SAFE Circular 19, which took effect as of June 1, 2015 and was amended on December 30, 2019 and replaced the Circular on the Relevant Operational Issues Concerning the Administration Improvement of the Payment and Settlement of Foreign Currency Capital of Foreign Invested Enterprises (《關於完善外商投資企業外匯資金支付結匯管理有關業務操作問題的通知》), or SAFE Circular 142. SAFE Circular 19 launched a nationwide reform of the administration of the settlement of foreign exchange capitals of foreign-invested enterprises and allows foreign-invested enterprises to settle their foreign exchange capital at their discretion. On June 9, 2016, the SAFE promulgated the Circular on Reforming and Regulating Policies on the Control over Foreign Exchange Settlement of Capital Accounts (《國家外匯管理局關於改革和規範資本項目結匯管理政策的通知》), or SAFE Circular 16. SAFE Circular 19 and SAFE Circular 16 continue to prohibit foreign-invested enterprises from, among other things, using Renminbi fund converted from their foreign exchange capitals for expenditures beyond their business scopes, making securities investment or other investments (except for banks’ principal-secured products), issuing loans to non-affiliated enterprises or constructing or purchasing real estate not for self-use. On October 23, 2019, however, the SAFE promulgated the Notice of SAFE on Further Facilitating Cross-border Trade and Investment (《國家外匯管理局關於進一步促進跨境貿易投資便利化的通知》), which eases cross-border trade and investment, such as canceling restrictions on the use of foreign exchange settlement in domestic asset transaction accounts and allowing foreign non-investment enterprises to carry out domestic equity investment provided that such investment will not violate applicable special administrative measures (negative list) for foreign investment access and the projects to be invested shall be authentic and legitimate. It is still unclear how these rules would be interpreted and implemented by local competent authorities.

Violations of these circulars could result in severe monetary or other penalties. These SAFE circulars may significantly limit our ability to convert, transfer and use the [REDACTED] from this [REDACTED] and any offering of additional equity securities in the PRC, which may adversely affect our business, financial condition and results of operations.

Regulations relating to offshore investment activities by PRC residents may subject us to fines or sanctions imposed by the PRC government, including restrictions on our PRC Operating Entities’ abilities to pay dividends or make distributions to us and our ability to increase investment in Wangchen Technology.

On July 4, 2014, the SAFE promulgated the Circular Concerning Foreign Exchange Administration of Overseas Investment and Financing and Round-trip Investment Conducted by Domestic Residents through Overseas Special Purpose Vehicles (《關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) (the “**Circular 37**”), to replace the Circular on Relevant Issues Concerning Foreign Exchange Administration for Domestic Residents’ Financing

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and Roundtrip Investment Through Offshore Special Purpose Vehicles (《關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》) (the “**Circular 75**”), which ceased to be effective upon the promulgation of Circular 37. Circular 37 requires that a PRC resident must register with the local SAFE branch before he or she contributes assets or equity interests in an overseas special purpose vehicle (the “**Overseas SPV**”), that is directly established or indirectly controlled by the PRC resident for the purpose of conducting investment or financing; and 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. In addition, on February 13, 2015, the SAFE promulgated the Circular of SAFE 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》), also known as Circular 13 which was effective on June 1, 2015 and was amended on December 30, 2019. The aforesaid registration shall be directly reviewed and handled by qualified banks in accordance with the Circular 13, and the SAFE and its branches shall perform indirect regulation over the foreign exchange registration via qualified banks.

As confirmed by our PRC Legal Advisers, our Registered Shareholders, who are our beneficial owners and PRC individuals, have completed the initial SAFE registration pursuant to Circular 37 and Circular 13. There can be no assurance that the subsequent amendment of registration can be successfully completed in a timely manner. We have notified and requested all of our shareholders to comply with, or notify their beneficial owners who are PRC residents to comply with, applicable SAFE regulation, including their filing obligation under Circular 37 and other implementation rules. Nevertheless, we do not have control over our beneficial owners and there can be no assurance that all of our PRC-resident beneficial owners will comply with Circular 37 and other relevant implementation rules, and there is no guarantee that the registration under Circular 37 and any amendment will be completed in a timely manner, or will be completed at all. Failure of our present or future Shareholders who are PRC residents to comply with the relevant requirements could subject these Shareholders to fines or legal sanctions, restrict our overseas or cross-border investment activities, limit the ability of our PRC Operating Entities to make distributions or pay dividends or affect our ownership structure, which could adversely affect our business, financial condition and results of operations.

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

On August 8, 2006, six PRC regulatory authorities, including the MOFCOM, the State Assets Supervision and Administration Commission, the SAT, the SAIC (currently known as the State Administration for Market Regulation), the CSRC and the SAFE, jointly issued the Rules on Mergers and Acquisitions of Domestic Enterprise by Foreign Investors (《關於外國投資者併購境內企業的規定》), M&A Rules, which became effective on September 8, 2006 and was amended by the MOFCOM on June 22, 2009 (the “**M&A Rules**”). The M&A Rules and other regulations and rules concerning mergers and acquisitions established procedures and requirements that could make merger and acquisition activities by foreign investors time consuming and complex. For example, the M&A Rules require that MOFCOM be notified in advance of any change-of control transaction in which a foreign investor takes control of a PRC domestic enterprise, if (i) any important industry is concerned, (ii) such transaction involves factors that have or may have impact on the national economic security, or (iii) such transaction will lead to a change in control of a domestic enterprise which holds a famous trademark or PRC time-honored brand. Moreover, the Anti-Monopoly Law

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of the PRC (《中華人民共和國反壟斷法》), promulgated by the Standing Committee of the National People’s Congress on August 30, 2007 and effective from August 1, 2008, amended on June 24, 2022 and became effective on August 1, 2022, and the Rules of the State Council on Declaration Threshold for Concentration of Undertakings (《國務院關於經營者集中申報標準的規定》) effective as of August 3, 2008, and as amended on September 18, 2018, require that transactions which are deemed concentrations and involve parties with specified turnover thresholds (i.e. during the previous fiscal year, (i) the total global turnover of all operators participating in the transaction exceeds RMB10 billion and at least two of these operators each had a turnover of more than RMB400 million within the PRC, or (ii) the total turnover within the PRC of all the operators participating in the concentration exceeded RMB2 billion, and at least two of these operators each had a turnover of more than RMB400 million within the PRC) must be notified and cleared by MOFCOM before they can be completed.

In addition, on February 3, 2011, the General Office of the State Council promulgated a Notice on Establishing the Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (《國務院辦公廳關於建立外國投資者併購境內企業安全審查制度的通知》), or Circular no.6 and became effective on March 3, 2011, which establishes a security review system for merger and acquisition of domestic companies by foreign investors. These security review rules specify that mergers and acquisitions by foreign investors that raise “national defence and security” concerns and mergers and acquisitions through which foreign investors may acquire de facto control over domestic enterprises that raise “national security” concerns are subject to strict review by the MOC, and the rules prohibit any activities attempting to bypass a security review, including by structuring the transaction through a contractual proxy or control arrangement. In August 2011, MOFCOM promulgated the Rules on Implementation of Security Review System (《商務部實施外國投資者併購境內企業安全審查制度的規定》), or the MOFCOM Security Review Rules, to replace the Interim Provisions of the Ministry of Commerce on Matters Relating to the Implementation of the Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (《商務部實施外國投資者併購境內企業安全審查制度有關事項的暫行規定》) promulgated by MOFCOM effective from March 5, 2011 and expired by the end of August 2011, for implementing Circular No. 6. The MOFCOM Security Review Rules, which became effective on September 1, 2011, explicitly provide that MOFCOM will look into the substance and actual impact of the transaction and further prohibit foreign investors from bypassing the security review requirement by structuring transactions through proxies, trusts, indirect investments, leases, loans, control through contractual arrangements or offshore transactions. In the future, we may grow our business by acquiring complementary businesses.

Complying with the requirements of the above-mentioned regulations and other relevant rules to complete such transactions could be time consuming, and any required approval processes, including obtaining approval from the MOFCOM or its local counterparts, may delay or inhibit our ability to complete such transactions. It is unclear whether our business would be deemed to be in an industry that raises “national defense and security” or “national security” concerns. However, the MOFCOM or other government agencies may publish explanations in the future determining that our business is in an industry subject to the security review, in which case our future acquisitions in the PRC, including those by way of entering into contractual control arrangements with target entities, may be closely scrutinized or prohibited. Our ability to expand our business or maintain or expand our market share through future acquisitions would as such be materially and adversely affected.

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The approval, filing or other requirements of the CSRC or other PRC government authorities may be required in connection with our [REDACTED] under PRC laws, and, if required, we cannot predict whether we will be able to obtain such approval or complete such filing.

The PRC government has recently indicated an intent to exert more oversight and control over overseas securities offerings and other capital markets activities and foreign investment in China-based companies like us.

On December 24, 2021, the CSRC issued the Provisions of the State Council on the Administration of Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments) (《國務院關於境內企業境外發行證券和上市的管理規定(草案徵求意見稿)》) (the “**Draft Overseas Listing Administration Provisions**”) and the Administrative Measures for the Filing of Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments) (《境內企業境外發行證券和上市備案管理辦法(徵求意見稿)》) (the “**Draft Overseas Listing Filing Measures**”), which were open for public comments until January 23, 2022. The Draft Overseas Listing Administration Provisions comprehensively improved and reformed the existing regulatory system for overseas offering and listing of domestic companies, and brought all overseas listing activities including both direct and indirect overseas offering and listing under regulation by adopting a filing-based administration system. The Draft Overseas Listing Filing Measures provides that if the issuer meets the following criteria, the overseas securities offering and listing conducted by such issuer will be deemed as indirect overseas offering by PRC domestic companies: (i) any of the revenue, net profit, total assets or net assets of the domestic companies accounted for more than 50% of the respective audited revenue, net profit, total assets or net assets of the issuer within the latest fiscal year; (ii) a majority of the officers responsible for management of the issuer are PRC citizens or have their usual place of residence located in mainland China and the issuer’s main place of operation is within mainland China. It is unclear based on the Draft Overseas Listing Filing Measures that whether either or both of the above criteria need to be satisfied. Where an issuer makes an application for initial public offering to competent overseas regulators, the issuer must submit to the CSRC filing documents within three working days after such application is submitted. The Draft Overseas Listing Administration Provisions explicitly forbid overseas offerings and listings (i) that are explicitly prohibited by specific laws and regulations, (ii) that constitute threat to or endanger national security as reviewed and determined by competent departments of the State Council, (iii) that involve material ownership disputes, (iv) where for the PRC domestic companies, their controlling shareholders or de facto controllers are involved in certain criminal offences, (v) where the directors, supervisors and senior management of the listing applicant are involved in certain criminal offences or material administrative penalties, and (vi) that are forbidden as determined by the State Council (collectively the “**Forbidden Circumstances**”) in the PRC. The Draft Overseas Listing Filing Measures also requires subsequent report to the CSRC on material events, such as material change in principal business and change of control.

As of the Latest Practicable Date, the Draft Overseas Listing Administration Provisions and the Draft Overseas Listing Filing Measures have not yet come into effect. The interpretation, application and enforcement of the regulations remain unclear. If the filing procedure with the CSRC under the Draft Overseas Listing Administration Provisions is required, we may be required to complete the filing procedures with the CSRC. On December 24, 2021, a spokesperson of the CSRC at a press conference in relation to the Draft Overseas Listing Administration Provisions and the Draft Overseas Listing Filing Measures clarified that “conditional upon complying with the domestic laws and regulations, enterprises adopting a VIE structure that have met the compliance requirements may seek listing overseas after completing proper filing procedures”. Therefore, as confirmed by our PRC Legal Advisers, other than that the Company may be required to comply with the corresponding requirements under the Draft Overseas Listing Administration Provisions and the

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Draft Overseas Listing Filing Measures including the completion of proper filing procedures with the CSRC within a timeframe to be specified in the final form thereof if such final form of the relevant regulations are enacted before the [REDACTED], the Draft Overseas Listing Administration Provisions and the Draft Overseas Listing Filing Measures do not raise new compliance requirements for the business operations as well as overseas offering and listing of PRC domestic companies adopting a VIE structure through contractual arrangements. Therefore, we and our PRC Legal Advisers do not expect the Draft Overseas Listing Administration Provisions and the Draft Overseas Listing Filing Measures, if implemented in their current forms, would have any material adverse impact on the Group’s business operations and the [REDACTED]. Although the implementation of the Draft Overseas Listing Administration Provisions and the Draft Overseas Listing Filing Measures, if adopted in their current forms, will be subject to the discretion and interpretation of the CSRC, to the best knowledge of our PRC Legal Advisers and our Company, our proposed [REDACTED] does not fall within any of the Forbidden Circumstances under the Draft Overseas Listing Filing Measures as of the Latest Practicable Date. Therefore, our PRC Legal Advisers are of the view and the PRC legal advisers to the Sole Sponsor concur, that there is no foreseeable material legal impediment for our Group to comply with such filing procedures under the Draft Overseas Listing Administration Provisions and the Draft Overseas Listing Filing Measures in all material respects, should they be implemented in the current forms. We will, if necessary, immediately comply with the filing procedures with the CSRC once the final form of the Draft Overseas Listing Administration Provisions and the Draft Overseas Listing Filing Measures are promulgated and implemented. In addition, our PRC Legal Advisers are of the view that as of the Latest Practicable Date, there are no laws or regulations currently in effect in the PRC that would require our Company to complete any approval, verification or filing procedures in respect of the proposed [REDACTED], and therefore our proposed [REDACTED] do not require the examination and approval from the CSRC in accordance with the relevant laws and regulations in the PRC currently in effect as of the Latest Practicable Date.

If it is determined that we are subject to any CSRC approval, filing, other governmental authorization or requirements for this [REDACTED] or future capital raising activities, we may fail to obtain such approval or meet such requirements in a timely manner or at all, or completion could be rescinded. Any failure to obtain or delay in obtaining such approval or completing such procedures for the [REDACTED] or future capital raising activities, or a rescission of any such approval obtained by us, would subject us to sanctions by the CSRC or other PRC regulatory authorities. These regulatory authorities may impose fines and penalties on our operations in China, or take other actions that could materially and adversely affect our business, financial condition, results of operations and prospects, as well as the [REDACTED] of our Shares.

The CSRC or other PRC regulatory authorities may also take actions requiring us, or making it advisable for us, to halt the [REDACTED] or future capital raising activities before settlement and delivery of the Shares [REDACTED] hereby. Consequently, if you engage in market [REDACTED] or other activities in anticipation of and prior to settlement and delivery, you do so at the risk that settlement and delivery may not occur. In addition, if the CSRC or other regulatory authorities later promulgate new rules or explanations requiring that we obtain their approvals or accomplish the required filing or other regulatory procedures for the [REDACTED] or future capital raising activities, we may be unable to obtain a waiver of such approval requirements, if and when procedures are established to obtain such a waiver. Any uncertainties or negative publicity regarding such approval, filing or other requirements could materially and adversely affect our business, prospects, financial condition, reputation, and the [REDACTED] of the Shares.

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Failure to obtain government grants and subsidies or preferential tax treatments that may be available to us, or the discontinuation, reduction or delay of any of the government grants or preferential tax treatments currently enjoyed by us in the future could materially and adversely affect our business, financial condition and results of operations.

During the Track Record Period, we received various government grants and subsidies from local government authorities for technological innovation. Such government grants amounted to approximately RMB0.8 million, RMB1.6 million, RMB3.0 million and RMB2.7 million during the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022, respectively. During the Track Record Period, we also received certain preferential tax treatment. Wangchen Technology has obtained its qualification as a “High and New Technology Enterprises” (“HNTe”) in December 2019 and as a result, Wangchen Technology was entitled to the reduced preferential CIT rate of 15% for the years ended December 31, 2019 and 2020 while it was subject to CIT rate of 25% for the year ended December 31, 2021 and the six months ended June 30, 2022. The WFOE has fulfilled the requirement of the “Preferential Corporate Income Tax Treatment for Qianhai Shenzhen — Hong Kong Modern Service Industry Cooperation Zone” and was subject to a reduced preferential CIT tax rate of 15% for the year ended December 31, 2021 and the six months ended June 30, 2022. For more details, please see the section headed “Financial Information — Description of Major Components of Our Results of Operations — Taxation in the PRC” in this document for more information about the enterprise income tax rates applicable to our PRC subsidiaries and PRC Operating Entities.

Nevertheless, such government grants and preferential tax rates are non-recurring in nature, and the government authorities may decide to reduce or cancel such government grants or tax preferences at any time. The discontinuation, reduction or delay of these governmental grants or preferential tax treatment could adversely affect our business, financial condition and results of operations. In addition, we might not be able to successfully or timely obtain the government grants or preferential tax treatments that may be available to us in the future, and such failure could adversely affect our business, financial condition and results of operations.

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.

Our Company may adopt an employee equity incentive plans after it becomes an overseas [REDACTED] company upon the completion of the [REDACTED]. In such a case, we, along with our Directors, executive officers and other employees who may 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 the SAFE in February 2012. According to the foregoing Notice, employees, directors, supervisors and other management members who are PRC citizens or non-PRC citizens residing in China for a continuous period of no less than one year participating in any stock incentive plan of an overseas publicly [REDACTED] company, subject to limited exceptions, are required to register with the SAFE through a domestic qualified agent, which could be a PRC subsidiary of such overseas [REDACTED] company, and complete certain other procedures. Failure to complete the 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 [REDACTED] related thereto, or our ability to contribute additional capital into our PRC subsidiaries and our PRC subsidiaries’ ability to distribute dividends to us. This notice issued by the SAFE only covers two categories of equity incentive plans, i.e. employee

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stock ownership plans and stock option plans. As a result, 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, the 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.

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

We are a company incorporated in the Cayman Islands with a substantial part of our assets and our Directors and senior management are located within China. Therefore, it may not be possible for investors to effect service of process upon us or our Directors and senior management inside China or to enforce against us or them in China any judgments obtained from non-PRC courts.

On July 14, 2006, the PRC Supreme Court and the Hong Kong government signed the Arrangement on Reciprocal Recognition and Enforcement of Judgements 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 (《最高人民法院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》) (the “2006 Arrangement”) which was revised on July 3, 2008 and took effect as of August 1, 2008, pursuant to which any designated people’s court of the PRC or any designated Hong Kong court has made an enforceable final judgement 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 judgement.

On January 18, 2019, the Supreme People’s Court of the PRC and the government of the Hong Kong entered into the Arrangement on Reciprocal Recognition and Enforcement of Judgements in Civil and Commercial Matters 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》) (the “2019 Arrangement”). Although the 2019 Arrangement has been signed, it remains unclear when it will come into effect. When the 2019 Arrangement become effective, it will supersede the 2006 Arrangement and any party concerned may apply to the relevant PRC court or Hong Kong court for recognition and enforcement of the effective judgements in civil and commercial cases under the 2019 Arrangement but will be subject to the conditions set forth in the 2019 Arrangement. Therefore, the outcome and effectiveness of any action brought under the 2019 Arrangement is still uncertain. We cannot assure you that an effective judgement that complies with the 2019 Arrangement can be recognised and enforced in a PRC court.

In addition, China currently is not a party to any treaties providing for the reciprocal recognition and enforcement of judgements of courts of the Cayman Islands and many other countries and regions, and therefore recognition and enforcement in China of judgements of a court in any of these non-PRC jurisdictions in relation to any matter not subject to a binding arbitration provision may be difficult or impossible.

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RISKS RELATING TO THE [REDACTED]

There has been no prior public market for our Shares, and the liquidity and market price of our Shares after the [REDACTED] may be volatile so that an active market may not develop.

Before the [REDACTED], there was no public market for your Shares. The initial [REDACTED] range of our Shares was the result of negotiations between the Sole Sponsor and us, and the [REDACTED] may differ significantly from the market [REDACTED] for our Shares following the [REDACTED]. While we have applied to have our Shares [REDACTED] on the Hong Kong Stock Exchange, there is no guarantee that the [REDACTED] will result in an active, liquid public [REDACTED] market for our Shares. The liquidity, [REDACTED] volume and market price of our Shares may be volatile. Factors such as variations in our revenue, earnings and cash flows or any other developments of us may affect the volume and the [REDACTED] of our Shares.

The [REDACTED] may not be indicative of [REDACTED] that will prevail in the [REDACTED] market since there will be a gap of several days between [REDACTED] and [REDACTED] of our Shares.

The [REDACTED] of our Share is expected to be determined on the [REDACTED]. This is because our Shares will not commence [REDACTED] on the Hong Kong Stock Exchange until they are delivered, [REDACTED] may not be able to sell or [REDACTED] our Shares during the period between [REDACTED] and [REDACTED] of the Shares. Therefore, [REDACTED] are subject to the risk that the initial [REDACTED] of our Shares may be lower than the [REDACTED] as a result of adverse market conditions or other adverse development, that could occur between the time of sale and the time [REDACTED] begins.

Substantial future sales or the expectation of substantial sales of our Shares in the public market could adversely affect the prevailing market [REDACTED] of our Shares.

The future sale of a significant number of our Shares in the public market after the [REDACTED], or the perception that these sales could occur, could adversely affect the market [REDACTED] of our Shares and could materially impair our future ability to raise capital through [REDACTED] of our Shares. Please see “[REDACTED] — [REDACTED] and Expenses” in the document for further details. After these restrictions lapse, any 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 Share (or the perception that such sales or issuances) may cause the prevailing market [REDACTED] of our Shares to decline which could adversely affect our future ability to raise capital.

The shareholding percentages of the existing Shareholders will be diluted following the conversion of the Pre-[REDACTED] Convertible Bonds prior to the [REDACTED].

On June 16, 2021, our Company entered into the Pre-[REDACTED] CB Subscription Agreement with, among others, Garena Ventures, pursuant to which Garena Ventures agreed to [REDACTED] for the Pre-[REDACTED] Convertible Bonds in the principal amount of HK\$[REDACTED] at a conversion [REDACTED] of HK\$[REDACTED] per Share. All of the [REDACTED] of the Pre-[REDACTED] Convertible Bonds were received by our Company on June 21, 2021. On May 31, 2022, our Company and Garena Ventures executed a supplemental deed to extend the maturity date of the Pre-[REDACTED] Convertible Bonds from June 6, 2022 to June 6, 2023. Assuming full conversion of the Pre-[REDACTED] Convertible Bonds immediately before the [REDACTED], Garena Ventures will be issued with [REDACTED] Shares, representing approximately [REDACTED] of the issued share capital of our Company immediately upon [REDACTED] (without taking into account any Shares which may be issued upon exercise of any option which may be granted under the Share Option Scheme and assuming that there is no

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adjustment to the conversion [REDACTED]). As a result, the shareholding percentages of the existing Shareholders in our Company would be diluted when the Pre-[REDACTED] Convertible Bonds are converted to Shares prior to the [REDACTED] and could negatively affect the market [REDACTED] of the Shares. However, in the event that the conversion of the Pre-[REDACTED] Convertible Bonds does not take place before the maturity date, the Pre-[REDACTED] Convertible Bonds shall bear a simple interest computed at a rate of 5% per annum (on the basis of a 365-day year and the actual number of days elapsed), commencing on the issuance date of the Pre-[REDACTED] Convertible Bonds and until the full payment of the outstanding principal amount and any accrued and unpaid interest payable at maturity or redemption of the Pre-[REDACTED] Convertible Bonds, which may then reduce our cash flow and cash position. For further details of the terms of the Pre-[REDACTED] Convertible Bonds, please see the section headed “History, Reorganization and Corporate Structure — Pre-[REDACTED] Investments — The Pre-[REDACTED] CB Subscription” to this document.

The laws of the Cayman Islands relating to the protection of the interests of minority shareholders may differ from the laws of Hong Kong and other jurisdictions.

Our corporate affairs are governed by, among other things, our Memorandum of Association and Articles of Association, the Cayman Companies Act, and the common law of the Cayman Islands. The rights of our Shareholders to take action against our Directors, the rights of minority shareholders to instigate actions and the fiduciary responsibilities of our Directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from English common law, which has persuasive, but not binding, authority on a court in the Cayman Islands. The rights of our Shareholders and the fiduciary responsibilities of our Directors under Cayman Islands law may not be the same as they would be under statutes or judicial precedent in Hong Kong or other jurisdictions. In particular, the Cayman Islands have different securities laws as compared to Hong Kong and may not provide the same protection to investors. Furthermore, shareholders of Cayman Islands companies may not have standing to initiate a shareholder derivative action in a Hong Kong court.

We have significant discretion as to how we will use the [REDACTED] of the [REDACTED] and you may not necessarily agree with how we use them.

We plan to use the [REDACTED] from the [REDACTED] in a number of ways. Please see “Future Plans and Use of [REDACTED] — Use of [REDACTED]” in this document for further details. However, our management will have discretion as to the actual application of our [REDACTED]. Our management may spend the [REDACTED] from the [REDACTED] in ways you may not agree with or that do not yield a favourable return to our Shareholders. You are entrusting your funds to our management, upon whose judgement you must depend, for the specific uses we will make of the [REDACTED] from this [REDACTED].

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

We cannot assure you when and in what form dividends will be paid on our Shares after the [REDACTED]. The declaration and distribution of dividends is at the discretion of the Board, and our ability to pay dividends or make other distributions to our Shareholders is subject to various factors, including without limitations, our business and financial performance, capital and regulatory requirements and general business conditions. We may not be able to have sufficient or any profits to enable us to make dividend distributions to our shareholders in the future, even if our financial statements indicate that our operations have been profitable. As a result of the above, we are not able to guarantee that we will make any dividend payments on our Shares in the future. Please see “Financial Information — Dividends” in this document for further details.

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

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

Certain facts, forecasts and statistics contained in this document are derived from various publicly available official or third party sources and may not be accurate, reliable, complete or up-to-date.

Certain facts, forecasts and statistics contained in this document relating to the PRC and various other countries and regions as well as the online game industry are derived from various official government publications, market data providers, industry expert commissioned by us and other independent third-party sources. We believe that the sources of this information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. However, while we have exercised reasonable care in compiling and reproducing these facts, forecasts and statistics, there is no guarantee that such source materials are high quality or reliable.

The information has not been prepared or independently verified by us, the Sole Sponsor, the [REDACTED] or any other party (other than Frost & Sullivan) involved in the [REDACTED] and no representation is given as to its accuracy. We make no representation as to the accuracy of the information contained in such sources, which may not be consistent with other information compiled within or outside the PRC and other jurisdictions and may not be complete or up-to-date. Accordingly, the industry information and statistics contained herein may not be accurate and should not be unduly relied upon for your [REDACTED].

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

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

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

Forward-looking statements contained in this document are subject to risks and uncertainties.

This document contains certain forward-looking statements and information relating to us that are based on the beliefs of our management as well as assumptions made by and information currently available to our management. When used in this document, the words “aim”, “anticipate”, “believe”, “can”, “continue”, “could”, “estimate”, “expect”, “intend”, “ought to”, “may”, “might”, “plan”, “potential”, “predict”, “project”, “seek”, “should”, “will”, “would”, and similar expressions, as they relate to our Company or our management, are intended to identify forward-looking statements. Such statements reflect the current views of our management, are intended to identify forward-looking statements. Such statements reflect the current views of our management with respect to future events, operations, liquidity and capital resources, some of which may not materialize or may change. These statements are subject to certain risks, uncertainties and assumptions, including the other risk factors as described in this document. Subject to the requirements of the Listing Rules, we do not intend publicly to update or otherwise revise the forward-looking statements in this document, whether as a result of new information, future events or otherwise. [REDACTED] should not place undue reliance on such forward-looking statements and information.

WAIVERS FROM STRICT COMPLIANCE WITH THE REQUIREMENTS UNDER THE LISTING RULES

In preparation for the [REDACTED], our Group has sought the following waivers from strict compliance with the relevant provisions of the Listing Rules.

MANAGEMENT PRESENCE

Pursuant to Rule 8.12 of the Listing Rules, an issuer must have a sufficient management presence in Hong Kong, which normally means that at least two of its executive directors must be ordinarily residents in Hong Kong. We do not have a sufficient management presence in Hong Kong for the purpose of satisfying the requirement under Rule 8.12 of the Listing Rules. We have applied for a waiver from strict compliance with Rule 8.12 of the Listing Rules primarily on the basis that, as our headquarters and principal business operations are located in the PRC, our management is best able to attend to its function by being based in the PRC. We have applied for, and the Stock Exchange has granted us a waiver from strict compliance with Rule 8.12 of the Listing Rules subject to, among others, the following conditions:

- (a) pursuant to Rule 3.05 of the Listing Rules, we have appointed two authorized representatives, Mr. Li Xin, our executive Director, and Mr. Chu Kai Chi, our company secretary, who will act as our Company’s principal channel of communication with the Stock Exchange. Mr. Chu Kai Chi is an ordinary resident in Hong Kong. Each of our authorized representatives will be available to meet with the Stock Exchange in Hong Kong within a reasonable time frame upon the request of the Stock Exchange and will be readily contactable by telephone, facsimile and email. Each of our authorized representatives is authorized to communicate on our behalf with the Stock Exchange. Our Company has been registered as a non-Hong Kong Company under part 16 of the Companies Ordinance and Mr. Chu Kai Chi has also been authorized to accept service of legal process and notices in Hong Kong on behalf of our Company;
- (b) both our authorized representatives have means to contact our Directors (including our independent non-executive Directors) promptly at all times as and when the Stock Exchange wishes to contact our Directors for any matters. Our Directors who are not ordinarily residents in Hong Kong possess or can apply for valid travel documents to visit Hong Kong and will be able to meet with the Stock Exchange within a reasonable period of time, when required. Each of our Directors has provided his/her mobile phone number, residential phone number, fax number and email address to our authorized representatives. In event that a Director expects to travel, he/she will endeavor to provide the phone number of the place of his/her accommodation to our authorized representatives or maintain an open line of communication via his/her mobile phone. Each of our Directors and authorized representatives have also provided his/her mobile number, office phone number, fax number and email address to the Stock Exchange;
- (c) Pursuant to Rule 3A.19 of the Listing Rules, we have appointed UOB Kay Hian (Hong Kong) Limited as our compliance adviser, which will have access at all times to our authorized representatives, Directors, senior management and other officers of our Company, and will act as an additional channel of communication between the Stock Exchange and us; and
- (d) meetings between the Stock Exchange and our Directors could be arranged through our authorized representatives or the compliance adviser, or directly with our Directors within a reasonable time frame. Our Company will promptly inform the Stock Exchange of any changes of our authorized representatives and/or the compliance adviser.

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WAIVERS FROM STRICT COMPLIANCE WITH THE REQUIREMENTS UNDER THE LISTING RULES

CONTINUING CONNECTED TRANSACTIONS

We have entered into the Contractual Arrangements which will constitute continuing connected transactions for our Company under the Listing Rules after [REDACTED]. We have applied to the Stock Exchange for, and the Stock Exchange has granted us, a waiver from strict compliance with (i) announcement and independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules in respect of the transactions under the Contractual Arrangements; (ii) the requirement of setting a maximum aggregate annual value (i.e. an annual cap) for the fees payable to our Group under the Contractual Arrangements; and (iii) the requirement of limiting the term of the Contractual Arrangements to three years or less, for so long as our Shares are [REDACTED] on the Stock Exchange. Further information is disclosed in the sections headed “Connected Transactions” and “Contractual Arrangements” in this document.

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INFORMATION ABOUT THE DOCUMENT AND THE [REDACTED]

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INFORMATION ABOUT THE DOCUMENT AND THE [REDACTED]

[REDACTED]

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INFORMATION ABOUT THE DOCUMENT AND THE [REDACTED]

[REDACTED]

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INFORMATION ABOUT THE DOCUMENT AND THE [REDACTED]

[REDACTED]

DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

DIRECTORS

Name	Residential Address	Nationality
------	---------------------	-------------

Executive Directors

Mr. Jia Xiaodong	17/F, East of Xincheng Building No. 1025 Shennan Middle Road Futian District, Shenzhen Guangdong Province PRC	Chinese
Mr. Huang Xiang	14A, Tianyuege Building B Tianyue Longting Yalan Road Bao'an District, Shenzhen Guangdong Province PRC	Chinese
Mr. Li Xin	No. 3003, Unit 1, Building 4 No. 49, Hongji New Road Jinjiang District, Chengdu Sichuan Province PRC	Chinese

Independent Non-executive Directors

Mr. Zhan Peixun	21H, Fumingge Haifu Garden Shennan East Road Luohu District, Shenzhen Guangdong Province PRC	Chinese
Mr. Leung Ming Shu	Room 1, 3/F, Block A Ventris Place 19–23 Ventris Road Happy Valley Hong Kong	Chinese
Ms. Chak Hoi Kee Clara	Flat F, 30/F, Block 1 Harbour Side 1 Austin Road West Tsim Sha Tsui Kowloon Hong Kong	Chinese

Please refer to the section headed “Directors and Senior Management” in this document for further information regarding our Directors.

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DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

PARTIES INVOLVED IN THE [REDACTED]

Sole Sponsor	UOB Kay Hian (Hong Kong) Limited 6/F Harcourt House 39 Gloucester Road Hong Kong
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]

DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

[REDACTED]

Legal Advisers to Our Company

As to Hong Kong law:

Sidley Austin

Level 39, Two International Finance Centre
8 Finance Street
Central
Hong Kong

As to PRC law:

Han Kun Law Offices

20/F, Kerry Plaza Tower 3
1-1 Zhongxinsi Road
Futian District, Shenzhen
China

As to Cayman Islands law:

Maples and Calder (Hong Kong) LLP

26th Floor, Central Plaza
18 Harbour Road
Wanchai
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

Legal Advisers to the Sole Sponsor and the [REDACTED]

As to Hong Kong law:

Tian Yuan Law Firm LLP

Suite 3304–3309, 33/F

Jardine House

One Connaught Place

Central

Hong Kong

As to PRC law:

Commerce & Finance Law Offices

23/F, Building A

CASC Plaza

Haide 3rd Road

Nanshan District, Shenzhen

China

Auditor and Reporting Accountant

PricewaterhouseCoopers

Certified Public Accountants

Registered Public Interest Entity Auditor

22nd Floor, Prince’s Building

Central

Hong Kong

Industry Consultant

Frost & Sullivan (Beijing) Inc. Shanghai Branch Co.

Suite 2504

Wheelock Square

1717 Nanjing West Road

Shanghai

China

[REDACTED]

[REDACTED]

CORPORATE INFORMATION

Registered office	PO Box 309, Ugland House Grand Cayman, KY1-1104 Cayman Islands
Principal place of business in Hong Kong	Unit E708, 7/F Ka Ming Court No. 688–690 Castle Peak Road Kowloon Hong Kong
Headquarters and principal place of business in the PRC	4203–4204, Qianhai Shimao Finance Centre II No. 3040, Aohai Avenue, Nanshan Street Qianhai Shenzhen-Hong Kong Cooperation Zone Shenzhen PRC
Company’s website address	<u>www.galasports.com</u> <i>(The information contained on this website does not form part of this document)</i>
Company secretary	Mr. Chu Kai Chi <i>(CPA of HKICPA)</i> Flat C, 18/F, Tower 2 Marbella 23 On Chun Street Ma On Shan New Territories Hong Kong
Authorized representatives	Mr. Chu Kai Chi Flat C, 18/F, Tower 2 Marbella 23 On Chun Street Ma On Shan New Territories Hong Kong Mr. Li Xin No. 3003, Unit 1, Building 4 No. 49, Hongji New Road Jinjiang District, Chengdu Sichuan Province PRC
Audit Committee	Mr. Leung Ming Shu <i>(Chairman)</i> Ms. Chak Hoi Kee Clara Mr. Zhan Peixun

CORPORATE INFORMATION

Remuneration Committee	Mr. Zhan Peixun (<i>Chairman</i>) Mr. Li Xin Mr. Leung Ming Shu
Nomination Committee	Mr. Jia Xiaodong (<i>Chairman</i>) Ms. Chak Hoi Kee Clara Mr. Zhan Peixun
Compliance adviser	UOB Kay Hian (Hong Kong) Limited
Principal share registrar and transfer office in the Cayman Islands	[REDACTED]
Hong Kong Share Registrar	[REDACTED]
Principal Banks	<p>Bank of China (Hong Kong) Limited 1 Garden Road Central Hong Kong</p> <p>China Merchants Bank Co., Ltd. (Tairan Jingu Branch) 1st Floor, Haisong Building 9 Tairan Road Futian District Shenzhen PRC</p> <p>Industrial and Commercial Bank of China Limited (Qianhai Branch) Block 10, Qianhai Enterprise Residence No. 63 Qianwan 1st Road Qianhai Free Trade Zone Shenzhen PRC</p>

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The information and statistics set out in this section and other sections of this Document were extracted from the report prepared by Frost & Sullivan, which was commissioned by us, and from various official government publications and other publicly available publications. We engaged Frost & Sullivan to prepare the Frost & Sullivan Report, an independent industry report, in connection with the [REDACTED]. The information from official government sources has not been independently verified by us, the Sole Sponsor, the [REDACTED], the [REDACTED], the [REDACTED], the [REDACTED] and the [REDACTED], any of their respective directors and advisors, or any other persons or parties involved in the [REDACTED], and no representation is given as to its accuracy.

Accordingly, you should not place undue reliance on such information. For discussions of risks relating to our industry, please see “Risk Factors — Risks Relating to Our Business and Industry.”

SOURCE OF INFORMATION

We have commissioned Frost & Sullivan to conduct market research and prepare a report on online game market in the globe, and particularly the PRC in relation to the [REDACTED] (the “**Frost & Sullivan Report**”). Frost & Sullivan is an independent global consulting firm founded in 1961 in New York that offers industry research and market strategies. We were charged RMB1,400,000 by Frost & Sullivan in connection with its preparation of the report. Our payment of such fee is not contingent upon the results of its research and analysis.

In preparing the Frost & Sullivan Report, Frost & Sullivan conducted detailed primary research which involved in-depth telephone and face-to-face interviews with industry participants. Frost & Sullivan also conducted secondary research which involved reviewing annual reports, industry publications and data based on its own research database. Frost & Sullivan obtained the figures for various market size estimates from historical data analysis plotted against macroeconomic data, and considered related industry drivers. Its forecasting methodology integrates several forecasting techniques with its internal analytics of critical market elements investigated in connection with its market research work. These elements primarily include identification of market drivers and restraints and integration of expert opinions. In preparation of the Frost & Sullivan Report, Frost & Sullivan assumed: (i) the macro economy of the PRC is likely to return to steady growth after the outbreak of COVID-19; (ii) key industry drivers are expected to continue to affect the market during the forecast period; and (iii) the social, economic and political environment in the PRC is likely to remain stable in the forecast period.

OVERVIEW OF ONLINE GAME MARKET

Definition

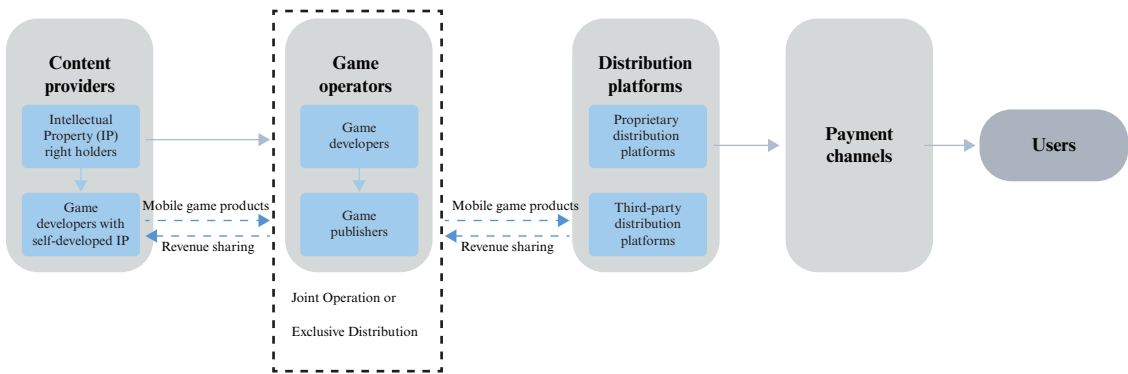
Generally, online games could be classified by various gameplay, game genre, platform, and revenue generation model, etc. In particular, online games are divided into major segments such as role-playing games (RPG), simulation games (SLG), action games (ACT), collective card games (CCG) and sports games by game genre and can be classified into personal computer (PC) games and mobile games by platform. PC games comprise games which are required to be downloaded for playing and web games which are played over the internet with web browsers. Mobile games refer to games that are played on portable devices, such as tablets or smartphones. Driven by the evolving mobile communication technology and development of smartphones, the number of mobile internet users in the PRC experienced continual growth and increased from 695.3 million in 2016 to 1,006.7

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million in 2021, at a CAGR of 7.7%. In line with the progression of mobile internet usage, the penetration rate of mobile internet users in the PRC also increased from 95.1% in 2016 to 99.6% in 2021.

Market Value Chain

The major participants of the online game market include content providers, game operators, distribution platforms and payment channels. Many companies will participate in one or more parts of the value chain, for example, by both self-developing and publishing games. The following chart shows the value chain of the online game market:



Source: Frost & Sullivan

- Content providers include IP right holders (for example, sports leagues, music, anime and cartoons) and professional game developers with capability to self-develop IP and design the game content and conduct demo assessment and testing on the game prior to launch.
- Game operators mainly include publishers who market and promote games and provide technical support which calibrates the game post-launch and customer service for game users. Game developers can either maintain an in-house publishing team or designate one exclusive partner or simultaneously engage multiple publishers to operate and popularise the game with different marketing and pricing strategies, and promotional campaigns.
- Distribution platforms include proprietary distribution platforms and third-party distribution platforms such as Apple AppStore, Google Play and TapTap, which sell and distribute mobile games to game users.
- Payment channels include WeChat Pay, Alipay and other third-party payment gateway services providers.

Global Market Size of Online Game Industry

The global online game market registered stable growth over the past years, increasing from USD77.0 billion in 2016 to USD154.1 billion in 2021 at a CAGR of 14.9%. With the continuously improving online game experiences brought by the cutting-edge technology and upgrading devices such as VR and 3D wiggle stereoscopy, the global market size of online games is anticipated to maintain an upward trend and reach USD223.0 billion by 2026 at a CAGR of 7.7% over the period from 2021 to 2026.

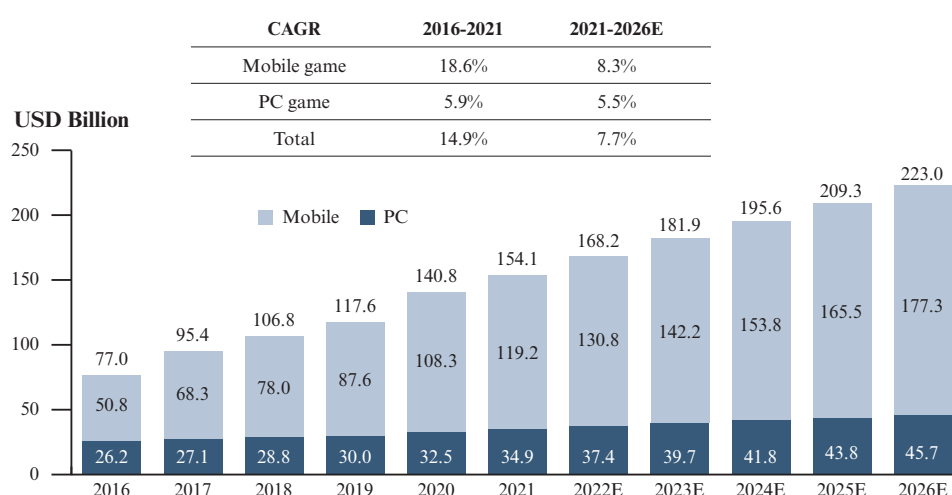
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In particular, the segment of mobile game market witnessed remarkable growth with the market size achieving a CAGR of 18.6% from 2016 to 2021, which was mainly due to the rising popularity of mobile phones and the increasing penetration of mobile internet, in particular in developing regions such as Southeast Asia and the PRC.

According to Frost & Sullivan, it is expected that due to the relaxation of pandemic control measures on a worldwide scale, a decline in consumer spending on in-app purchases in major markets such as the United States, Japan, and the PRC due to the economic downturn, and a rise in advertising costs, the global mobile game market may be exposed to downward pressure in the short term. Meanwhile, it is also expected that a number of favourable factors including but not limited to (i) the gradual recovery of the global economy from the COVID-19 pandemic which may result in an increase in disposable income of the global population as a whole; (ii) the increase in the number of online game users across the world who have developed online gaming habit during the pandemic and are likely to maintain such habit despite the relaxation of pandemic control measures; and (iii) continuous technological innovation and increasing deployment of 5G internet, AI and 3D technologies which in turn enhance the attractiveness of online games, will contribute to the growth of the global online game market in the long term. Taking into account both favourable and unfavourable factors in the short term and long term as mentioned above, the market size of global mobile game market is anticipated to continue to grow but with a lower CAGR of 8.3% from 2021 to 2026 as compared to the historical CAGR of 18.6% during 2016 to 2021 to reach approximately USD177.3 billion by 2026.

The segment of PC game market grew stably during 2016 to 2021 with a CAGR of 5.9% and will maintain steady trend in the future, the global market size of which is expected to reach USD45.7 billion by 2026.

Global Market Size of Online Games and Forecast by Different Platforms, by Revenue, 2016–2026E



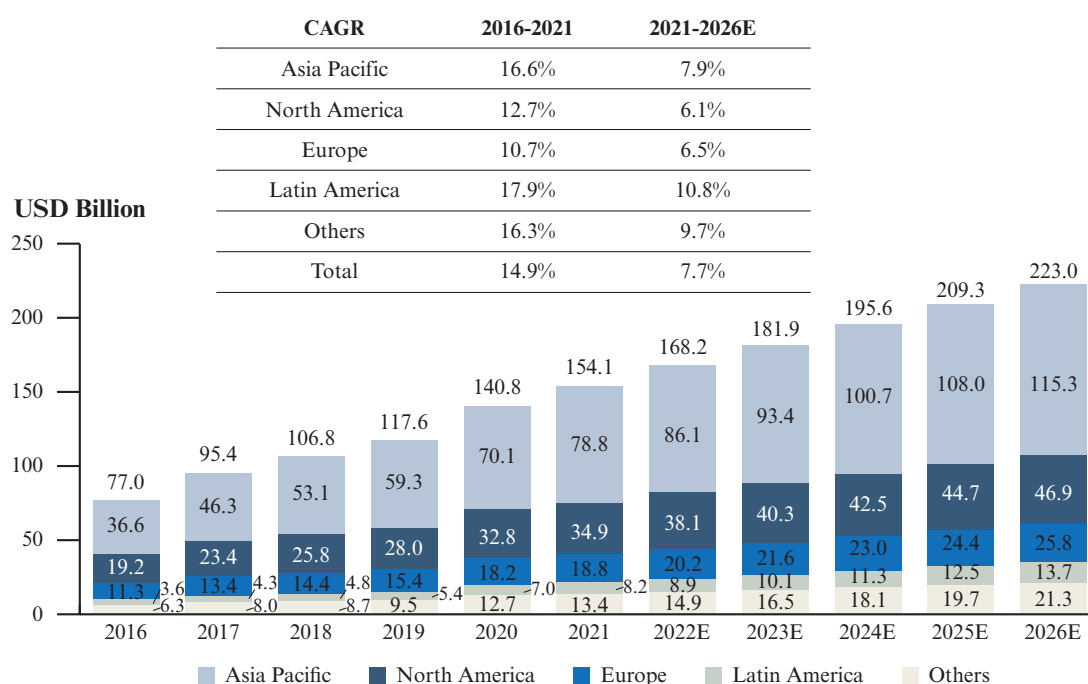
Source: Game Publishing Working Committee of the China Audio-video and Digital Publishing Association (GPC), Entertainment Software Association (ESA), Interactive Software Federation of Europe (ISFE), Computer Entertainment Supplier's Association (CESA), Data.ai, Frost & Sullivan

In terms of market size of the online game market by different regions in the world, Asia Pacific and Latin America registered meaningful growth during 2016 to 2021, representing CAGR of 16.6% and 17.9%, respectively. Going forward, driven by the rising consumer purchasing power and

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gradually improving network environment in these two regions, the market size of Asia Pacific and Latin America online game market are estimated to reach USD115.3 billion and USD13.7 billion by 2026, respectively.

Global Market Size of Online Games and Forecast in Different Regions, by Revenue, 2016–2026E



Source: Game Publishing Working Committee of the China Audio-video and Digital Publishing Association (GPC), Entertainment Software Association (ESA), Interactive Software Federation of Europe (ISFE), Computer Entertainment Supplier's Association (CESA), Data.ai, Frost & Sullivan

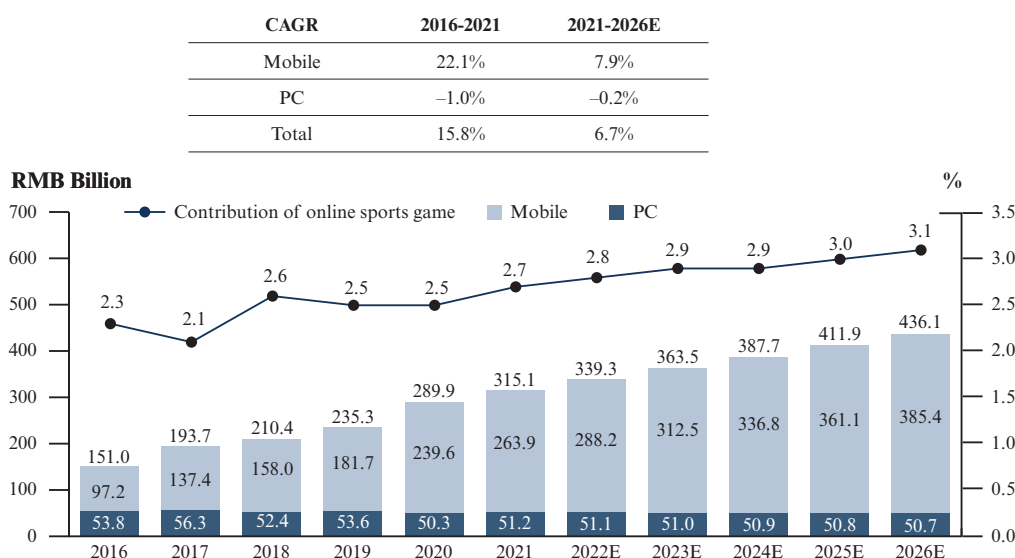
Market Size of Online Game Market in the PRC

The total size of the online game market in the PRC grew at a CAGR of 15.8% in the last five years, from RMB151.0 billion in 2016 to RMB315.1 billion in 2021. The market expansion was mainly attributable to the ubiquitous mobile phones and development of technological advancement in hardware and display, processing, storage, interfaces, network bandwidth and operating system functionality which, in particular, contribute to the growing market of mobile game at a CAGR of 22.1% from RMB97.2 billion in 2016 (64.4% of the entire online game market at the time) to RMB263.9 billion in 2021 (83.8% of the entire online game market at the time). According to Frost & Sullivan, in line with the trend of the global mobile game market, due to the relaxation of pandemic control measures, a decline in consumer spending on in-app purchases due to the economic downturn, and a rise in advertising costs, the PRC mobile game market may also be exposed to downward pressure in the short term. Nevertheless, a number of favourable factors including but not limited to (i) the expansion of internet coverage that the number of 5G base stations in the PRC has reached 1.43 million in 2021 and is anticipated to increase to 4.62 million in 2026; (ii) the online gaming habit developed during the pandemic is expected to linger after the relaxation of pandemic control measures; and (iii) the continuous technological innovation and the introduction of more advanced AI and 3D technologies which in turn enhance the attractiveness of online games, will contribute to the growth of the mobile game market in the PRC in the long term. Taking into

INDUSTRY OVERVIEW

account both favourable and unfavourable factors in the short term and long term as mentioned above, it is expected that the mobile game market in the PRC will continue to grow but with a lower CAGR of 7.9% as compared to the historical CAGR of 22.1% from 2016 to 2021 to reach RMB385.4 billion in 2026.

**Market Size of Online Game Market and Forecast in the PRC,
by Revenue, 2016–2026E**



Source: Game Publishing Working Committee of the China Audio-video and Digital Publishing Association (GPC), Frost & Sullivan

The rapid growth of the mobile game market in the PRC can be attributed to the following factors:

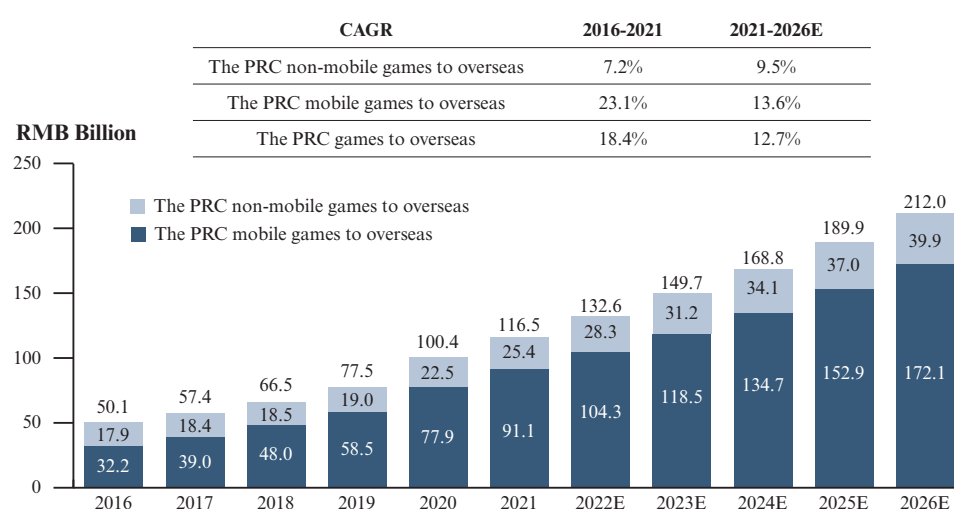
- Expanding internet coverage and lower communication cost** — Game users are gaining faster and more affordable internet access. According to the Department of Information and Communication Development of the PRC, 5G internet coverage is expected to be further expanded to remote villages and border areas in order to bring technological convenience to local people. Accordingly, as of 2021, in the PRC, the total number of 5G base stations has exceeded 1.4 million.
- Changing consumption patterns and demography** — Due to the rising disposable income, convenience of online payment channels and diversified genres of mobile games, consumers are increasingly willing to pay for mobile entertainment activities. The paying ratio of mobile games in the PRC has increased drastically from 53.6% in 2016 to 78.8% in 2021. Furthermore, according to National Bureau of Statistics of the PRC, the population of generation post-90s reached approximately 494.7 million in 2021, who are more online socializing savvy than the older generations. As such, the ARPPU of mobile games in the PRC has reached RMB461.9 in 2021.
- Development and popularity of electronic sports (E-sports)** — Electronic sports (E-sports) refer to computer games played in a competitive setting structured into leagues, in which game users compete through networked games and related activities, while traditional sports such as basketball and football emphasize the use of physical strength and ability

INDUSTRY OVERVIEW

for competition. E-sports has many similarities with traditional sports, such as having professional athletes, teams with commercial operators, international league tables and rigorous training standards. In many countries, E-sports is regarded as a socially acceptable and relatively healthy form of computer games, and are welcomed by fans of traditional sports. E-sports has now developed globally into a comprehensive value chain which comprises content owners/providers (game developers, IP owners, game publishers, IP licensors), event organisers (leagues, tournaments, playoffs), media/platforms (mobile game companies, streaming technology companies), hardware/peripheral vendors and playing users (amateur players, professional players, retired players, semi-professional teams, professional teams), etc. Over the years, E-sports continues to integrate into the traditional sports industry, such as the development of online sports games, and the crossover between E-sports and traditional sports is mutually benefiting the growth of both industries alongside each other. The growing popularity of E-sports allows game users to compete with each other in the online sports action simulation games, such as FIFA Football, and hence gives rise to new opportunities for live streaming platforms such as Douyu and Bilibili. KOLs in these platforms also utilise their influences to promote the E-sports games which fuels the development of mobile game market in the PRC.

With the rapid development of the mobile game market in the PRC, mainland Chinese game developers have been working on the improvement of game content and quality, which laid foundation for the publishing of local mobile games to overseas. The market size of the PRC mobile games to overseas registered notable growth with a CAGR of 23.1% during 2016 to 2021. It is estimated the market size of PRC mobile games to overseas would keep expanding as more and more Chinese companies are actively exploiting overseas consumption markets.

**Market Size of the PRC Games to Overseas,
by Revenue, 2016–2026E**

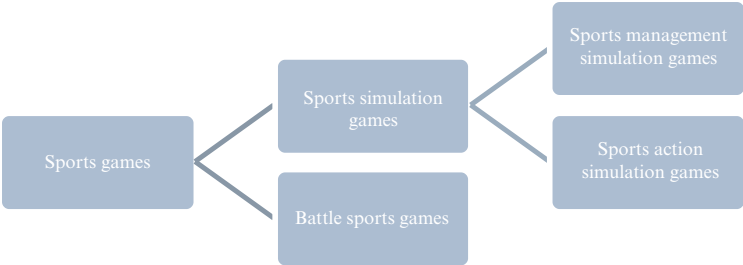


Source: Game Publishing Working Committee of the China Audio-video and Digital Publishing Association (GPC), Frost & Sullivan

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OVERVIEW OF ONLINE SPORTS GAME MARKET IN THE PRC

Market segmentation of online sports games



Source: Frost & Sullivan

Generally, sports games are divided into two categories — sports simulation games and battle sports games. On the one hand, sports simulation games aim to simulate real-world sports teams and players to create realistic and enhanced sense of immersion to the users, and thus IP right licenses of real-world sports leagues, sports associations and sports clubs are usually required. On the other hand, battle sports games do not seek to simulate the reality in the games but instead aim to create an imaginative world for users to compete with each other. For example, it is common for sports simulation games to deploy 3D technology to create in-game virtual players based on the likeness and/or images of the real life athletes while battle sports games may use simple graphics or animation to create virtual players. In addition, sports simulation games usually have game updates in accordance with the changing dynamics of the sports leagues and sports players in real life, while battle sports games are less adaptable to such dynamics and tend to provide monotonous gameplay to their users.

Sports simulation games can be further divided into, albeit with some common features, sports management simulation games and sports action simulation games. While sports management simulation games mainly focus on the management and training of sports teams wherein the users act as a team manager or coach, sports action simulation games are featured with additional control functions which allow users to manually steer the virtual sports players. One significant difference between sports action simulation games and sports management simulation games is that while in-game battles of sports management simulation games are run automatically, in-game battles of sports action simulation games are manually controlled by users such that the results are substantially affected by the users’ steering skills.

Despite some common features between sports action simulation games and sports management simulation games, the following table sets out their key differences:

	Sports action simulation games	Sports management simulation games
Core gameplay	The users’ manual steering skill in controlling the virtual players is a more important factor in determining the results of in-game battles. The purchase of enhanced virtual items and virtual players may give users a unique edge in battles.	Strongly correlated with the development of real-life sports events. The purchase of enhanced virtual items and virtual players is a more important factor in winning in-game battles which are run automatically.

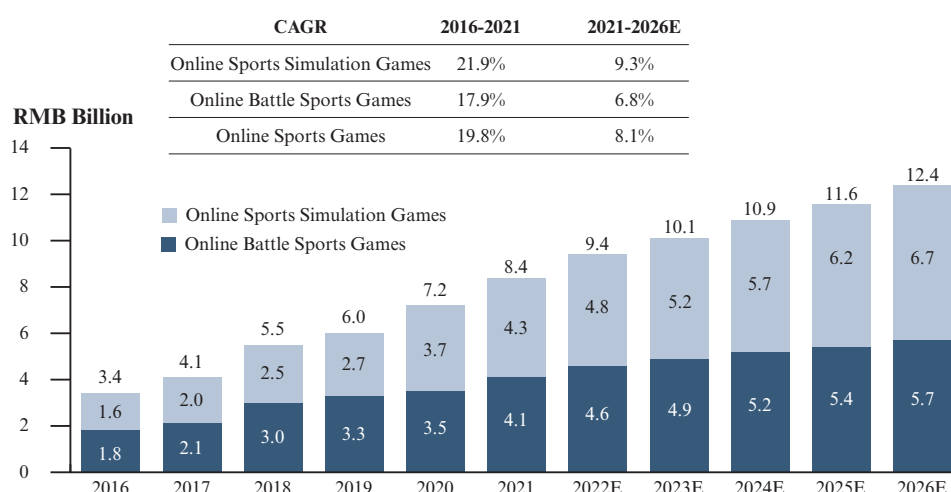
INDUSTRY OVERVIEW

	Sports action simulation games	Sports management simulation games
Satisfaction	Excitement from stimulating hands-on experiences	Satisfaction derived from leadership in staging battles with different team formation and strategies
Gaming strategies	Tend to cultivate users’ manual steering skill in controlling their selected virtual players through intensive practice	Tend to enhance the virtual items and virtual players to stage battles with different team formation strategies

Market Size Analysis

Sports game is one of the genres of online games, which takes approximately 4% to 6% of the total market size in the global online games market. In 2021, the online sports game market contributed only approximately 2.7% to the overall online game market in the PRC. Both online sports simulation games and online battle sports games in the PRC market increased over the period from 2016 to 2021. Specifically, the revenue of online sports simulation games market in the PRC increased from RMB1.6 billion in 2016 to RMB4.3 billion in 2021 at a CAGR of 21.9%, while that of online battle sports games rose from RMB1.8 billion in 2016 to RMB4.1 billion in 2021 at a CAGR of 17.9%. Driven by the increasing number of mobile internet users and improving technology and user experiences in the mobile games, the revenue of the PRC online sports game market is expected to maintain the upward momentum during the period from 2021 to 2026.

Market Size of Online Sports Games in the PRC by Game Genre, by Revenue, 2016–2026E



Source: Game Publishing Working Committee of the China Audio-video and Digital Publishing Association (GPC), Frost & Sullivan

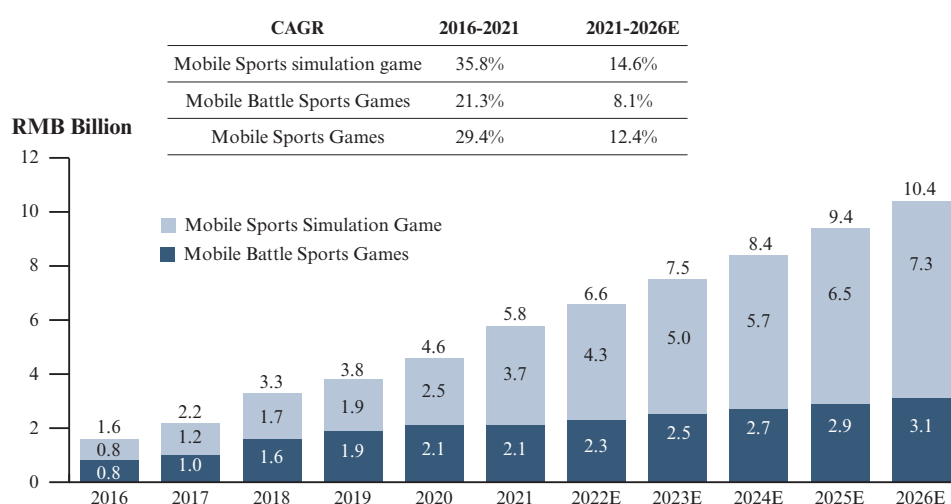
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OVERVIEW OF MOBILE SPORTS GAME MARKET

Market Size Analysis

Contributed by the rapid development of the internet industry and widely popularized smart phone, many sports games have transferred from PCs and consoles to smart phones or tablets. Nowadays, most mobile sports simulation games are football and basketball themed, whereas other sports games, such as baseball and American football are emerging and supported by the respective huge fan population. The market size of mobile sports simulation games in the PRC increased rapidly from RMB0.8 billion in 2016 to RMB3.7 billion in 2021, representing a CAGR of 35.8%. According to Frost & Sullivan, in line with the trend of the PRC mobile game market, the PRC mobile sports game market may also be exposed to downward pressure in the short term due to, among others, the relaxation of pandemic measures, a decline in consumer spending on in-app purchases due to the economic downturn, and a rise in advertising costs. Nevertheless, a number of favourable factors including but not limited to (i) the gradual recovery of economy in the PRC; (ii) the expanding internet coverage; (iii) the online gaming habit developed during the pandemic is expected to linger after the relaxation of pandemic control measures; and (iv) the continuous technological innovation and the introduction of more advanced AI and 3D technologies which in turn enhance the attractiveness of mobile sports games, will contribute to the growth of the mobile sports game market in the PRC in the long term. Taking into account both favourable and unfavourable factors in the short term and long term as mentioned above, it is expected that the market size of mobile sports simulation games in the PRC will continue to grow but with a lower CAGR of 14.6% from 2021 to 2026 as compared to the historical CAGR of 35.8% from 2016 to 2021 to reach RMB7.3 billion in 2026 and the market size of mobile battle sports games in the PRC will continue to grow but with a lower CAGR of 8.1% from 2021 to 2026 as compared to that of 21.3% from 2016 to 2021 to reach RMB3.1 billion in 2026.

**Market Size of Mobile Sports Games in the PRC,
by Revenue, 2016–2026E**

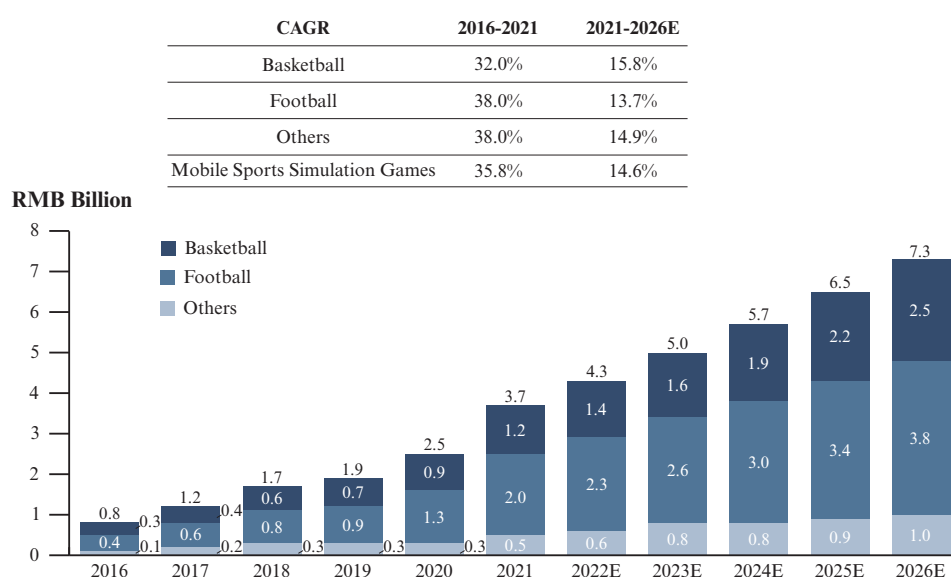


Source: Game Publishing Working Committee of the China Audio-video and Digital Publishing Association (GPC), Frost & Sullivan

INDUSTRY OVERVIEW

Football-themed and basketball-themed mobile sports simulation games are the two most significant genres among the entire mobile sports simulation game market in the PRC, with an aggregate market share of approximately 86.5% in 2021. The market size of basketball-themed mobile sports simulation games increased rapidly from RMB0.3 billion in 2016 to RMB1.2 billion in 2021, at a CAGR of approximately 32.0%. The market size of basketball-themed mobile sports simulation games in the PRC is expected to reach RMB2.5 billion in 2026. Meanwhile, the market size of football-themed mobile sports simulation games increased rapidly from RMB0.4 billion in 2016 to RMB2.0 billion in 2021, at a CAGR of approximately 38.0%. The market size of football-themed mobile sports simulation games is expected to reach RMB3.8 billion in 2026. In addition, the market size of mobile sports simulation games themed with other sports grew from RMB0.1 billion in 2016 to RMB0.5 billion in 2021, at a CAGR of approximately 38.0% and is expected to reach RMB1.0 billion in 2026.

Market Size of Mobile Sports Simulation Games in the PRC by Major Sports Types, by Revenue, 2016–2026E

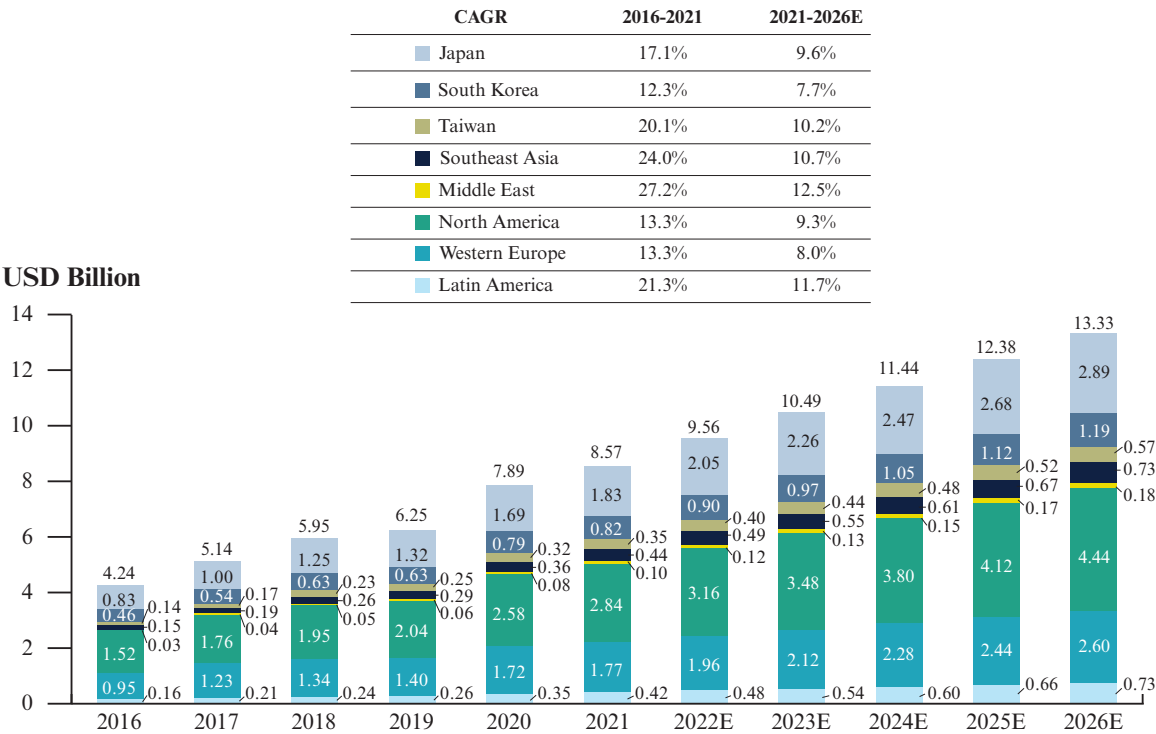


Source: Game Publishing Working Committee of the China Audio-video and Digital Publishing Association (GPC), Frost & Sullivan

The North America, Western Europe and Japan are the three major overseas markets for mobile sports simulation games. With the rapid development of the internet infrastructure and the growing penetration rate of mobile devices, the market size of mobile sports simulation games in emerging overseas markets, such as Southeast Asia, Middle East and Latin America, is expected to continue the growth at a double-digit CAGR from 2021 to 2026.

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Market Size of Mobile Sports Simulation Games of Major Overseas Markets, by Revenue, 2016–2026E



Source: Game Publishing Working Committee of the China Audio-video and Digital Publishing Association (GPC), Entertainment Software Association (ESA), Interactive Software Federation of Europe (ISFE), Computer Entertainment Supplier’s Association (CESA), Data.ai, Frost & Sullivan

Market Drivers

The mobile sports game market continues to develop and provides significant opportunities for game developers and other industry players in light of the following key drivers:

- **Changing technological landscape** — Technology improvements allow mobile games to capture more real-life situations from sports activities, with enhanced digital interaction. Going forward, mobile sports games will feature more engaging AI and 3D elements, enabling game users to be immersed in the game with dynamic challenges brought by AI technology. Other advanced technology, such as VR/AR holography also provides game users with higher level of interactive experience.
- **Introduction of new E-sports in new emerging markets** — The increasing popularity of E-sports is expected to further promote the overall awareness and popularity of different sports types and sport leagues around the world, and thereby expand the addressable market size of the global sports goods and services industry including online and mobile sports games and drive the penetration of online sports games in the global market. For instance, the EA Champions Cup (EACC) is one of the successful E-sports initiatives for the promotion of online sports game and is an example of the concerted establishment of an ecosystem benefiting the development of industries along the E-sports value chain involving game developers, game users, sports leagues, TV networks, and live-streaming platforms. Although E-sports competitions originated from computer games, it has been

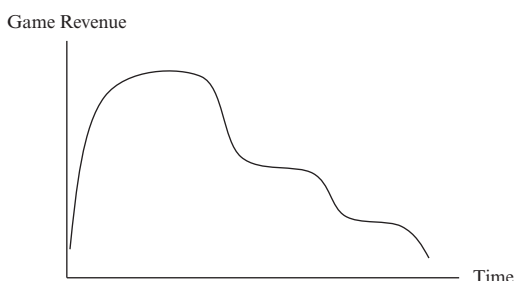
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evolving to include mobile games. Mobile E-sports games provide game users more opportunities to engage in competitive gameplay experiences with other users and offer game users strong game engagement experiences. Therefore, the popularity of E-sports drives the development of mobile sports games by facilitating the accessibility and development of E-sports competitions. As more and more variety of E-sports, including baseball, American football and tennis, are promoted especially in new emerging markets, such as Japan, China and other Asia Pacific regions, there provides a significant room for game developers to capture these online sports game opportunities, both in the local market where the sports originate and new emerging market with rising popularity.

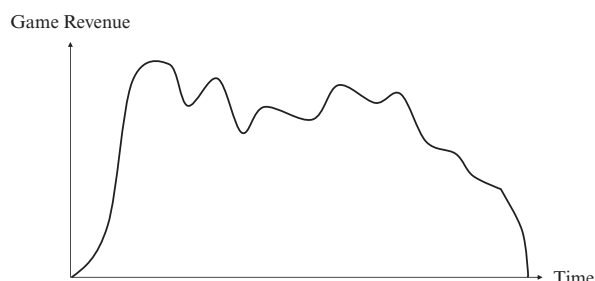
- **Longer lifecycle of mobile sports games** — With the enduring support and stickiness of the existing and loyal fan base of sports considering that online sport games may be played as a part of a users’ lifelong interest in the particular sport, online sports game, on average, is considered as having a relatively longer lifecycle than other genre of online games.
- **Favorable policy to foster national enthusiasm for sports and cultural development** — In July 2022, the MOFCOM together with 26 other government departments issued a guideline to promote the high-quality development of cultural trade (關於推進對外文化貿易高質量發展的意見), which, among others, aims to deepen the reforms on cultural development of and streamline the approval process of online games as well as to encourage brand building of cultural enterprises, including game companies, in the international markets.

Life Cycle Analysis of Online Sports Games

Life Cycle Model A Online Sports Games



Life Cycle Model B Online Sports Games



There are mainly two models of online sports games with regard to their lifecycles.

- **Model A:** Normally, both game revenue and number of active users may reach its peak within six months after a Model A game is launched. If there are no further promotional or marketing activities, the game revenue and number of active users of such games will descend until its revenue fail to cover the operating cost of the game within one to three years after its launch. Normally, if an online sports game has not experienced significant recession which demonstrates insufficient revenue to cover its operating cost within three years after its launch, the game tends to be a Model B game. For example, as the game revenue of the *Football Master* (足球大師) and *NBA Basketball Master* (NBA籃球大師) of our Group have not experienced such significant recession which demonstrates insufficient revenue to cover their operating costs within three years after the launch, they can be categorized as Model B games.

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- **Model B:** Model B games are designed to be operated in the long run. In response to the technology trend and dynamic needs of the game users, Model B games are updated regularly, where new technologies and changes of players and sports teams in the real world development would be continuously incorporated in order to cater for the dynamic appeals from game users and allow the content of sports games to be updated and synchronized with reality. Model B games may transfer or migrate from old platforms to new platforms continuously with development of hardware, and users of these games are usually loyal fans who follow such transfer or migration of the games. Model B games are normally games with IP right licenses that are updated with the changing dynamics of the sports leagues and sports players in real life. The lifecycle of the Model B sports games can last for as long as 10 years and some of them are enjoying even more enduring popularity and lifespan since their launch. Normally, it may take approximately 1 year for a Model B sports game to enter into its stable and mature stage, and its entire lifecycle may hold for approximately 10 years before reaching the final stage when the revenue of the game fails to cover its operating cost or shows the trend of loss. However, the stable and mature stage can be sustained or extended if the game developer and operator continues to release new versions periodically. The existing four games and the new games in the pipeline of our Group are designed as Model B games such that they are designed with up-to-date technologies such as advanced 3D engine and various rendering technologies and are licensed with IP rights from renowned sports league, sports associations and sports clubs. The games of our Group aim to recreate the real athletes and world sports events and are regularly updated to synchronize with real-life sports events and development. Our Group also strives to improve the technology applied in the games to optimize users’ experience. It is expected that such continuous upgrades and updates in both game content and technology to simulate the reality and cater for users’ needs will enable our Group to retain its users and increase their loyalty and stickiness to the games. Also, given that the loyalty of sports fans to their favoured sports leagues and players may last throughout their lifetime, it is expected that our Group’s games, which are designed as Model B games, can have a relatively longer lifecycle.

Ubiquity of Model B games in the online sports simulation game industry

In general, Model A games are more common in the wider online game industry. Compared to Model B online games, Model A online games are designed to achieve profit maximization by capturing the short-term market demand for the games with an expected lifecycle of one to three years. Therefore, Model A games are relatively less sophisticated and easier to develop with monotonous game features to provide short-term entertainment to game users as developers of Model A games normally would not devote considerable resources and efforts to improving the research and development capabilities to sustain the competitiveness of the games. Also, developers of Model A games would incur less management resources and capital for acquisition of popular IP right licenses as well as place less focus on updating or upgrading the games with the latest technology trend to cater for the dynamic needs of the game users. As such, Model A games aim to capture short-term market demand within the expected lifecycle of one to three years and developers of Model A games would devote less investment cost and efforts to the enhancement of research and development capabilities to support the continuous game version and content updates.

However, high-quality Model B games may dominate in the online sports simulation game (including online sports management simulation game and online sports action simulation game) industry as successful Model B online sports simulation games which allow sports fans to realize and engage their life-long interest through managing and controlling their favourite sports players virtually require the game developers (i) to be equipped with strong research and development capabilities so

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as to support the continuous game version and content updates and upgrades, such as advanced 3D technology, AI technology and rendering technology to enhance the in-game interactions among the game users and to provide an immersive user gameplay experience; and (ii) to acquire IP right licenses from popular sports leagues, sports associations and sports clubs to simulate the real-life sports world development to foster the attractiveness of the games and increase the user stickiness by leveraging the sports fans’ personal attachment to their favourite sports players so as to sustain the competitiveness of the games and to extend the lifecycle of the games to approximately ten years. Therefore, all our Group’s games follow the Model B game trajectory.

Entry Barriers

- ***Intellectual property license rights*** — Intellectual property rights play a significant role in the sports simulation game market as games that simulate popular sports leagues (such as FIFA or the NBA) and sports associations (such as FIFPro or the NBPA) require cooperation with the intellectual property right owners. Typically, such intellectual property right owners will form an agreement with game developers by charging game developers a fixed cost and, in some cases, with an additional 6% to 30% revenue sharing after a certain revenue threshold is exceeded.

The gameplay and style of the games licensed with intellectual property rights from NBA and FIFPro are widely divergent as NBA and FIFPro are very scrupulous when choosing game developers for partnership as they are unwilling to swarm the markets with too many licensed games, particularly those of poor quality which may threaten or potentially harm the overall reputation and goodwill of their intellectual property rights. Thus, it poses an entry barrier for a new game developer with limited track records to negotiate and secure cooperation with or existing partners to renew the intellectual property license with renowned intellectual property right owners such as NBA and FIFPro.

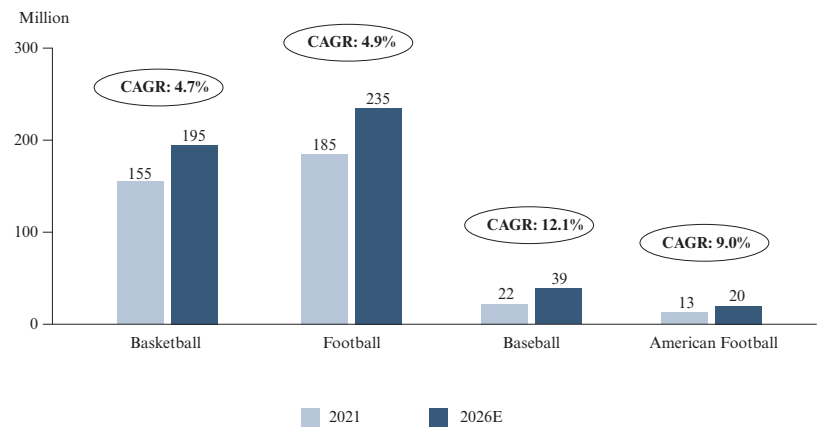
- ***Technological know-how*** — To develop online games of high quality that would attract and retain game users require game developers to be equipped with strong R&D capability. Advanced technology support, which provides expertise to enhance game development, testing and implementation by a team of professional talents is essential for the operational success. New entrants, however, may incur excessive cost and time to establish a professional team of talents or acquire the necessary technological know-how. The leading players in the industry are able to enlarge their R&D teams by providing competitive salary, while the new entrants may not be able to sustain their R&D teams if they cannot provide sufficient compensation to acquire or retain their key R&D staffs.

Analysis on Popularity of Major Sports in PRC

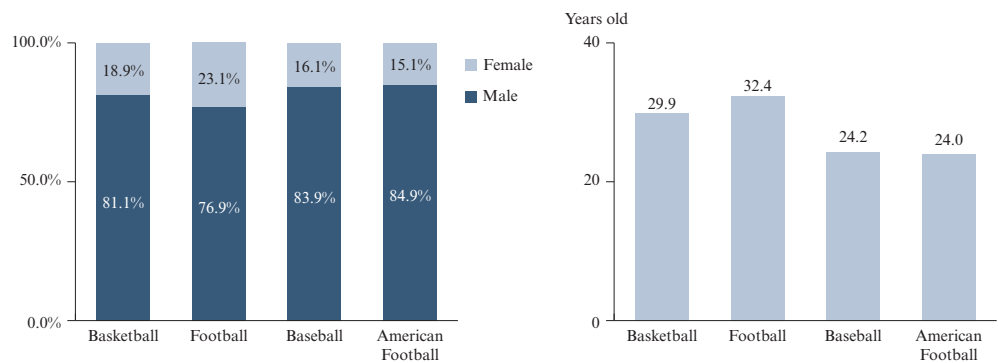
Basketball and football are two of the most popular sports in the PRC, and each of them has a huge fan base. Baseball and American football are two emerging sports in the PRC. Although the estimated number of sports fans of baseball and American football are relatively small in the PRC, their popularities have been increasing rapidly and are expected to grow at a CAGR of approximately 12.1% and 9.0%, respectively, from 2021 to 2026.

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Estimated Number of Sports Fans in the PRC, 2021 and 2026E



Gender Ratio and Average Age of Sports Fans in the PRC, 2021



Source: Chinese Basketball Association (CBA), Chinese Football Association (CFA), Chinese Baseball Association (CBA), Chinese Rugby Football Association (CRFA), Frost & Sullivan

Note: For the market size of basketball themed and football themed mobile sports games in the PRC, please refer to “— Overview of Mobile Sports Game Market — Market Size Analysis” above. The data for the market size of baseball themed and American football themed mobile sports games in the PRC are currently unavailable.

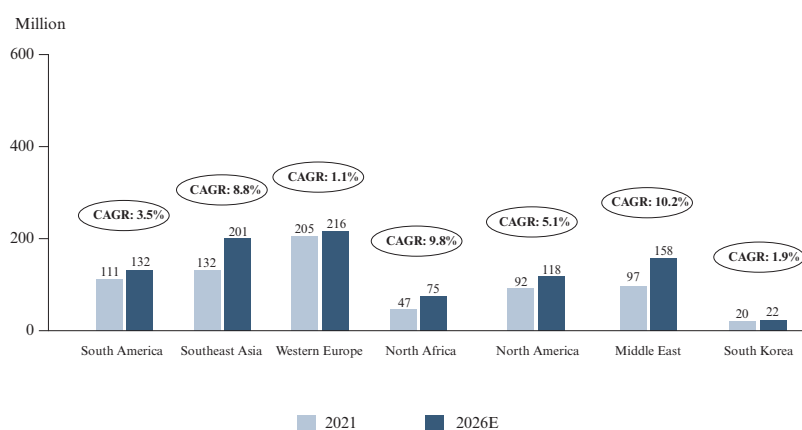
INDUSTRY OVERVIEW

Analysis on Popularity of Major Sports in Overseas Markets

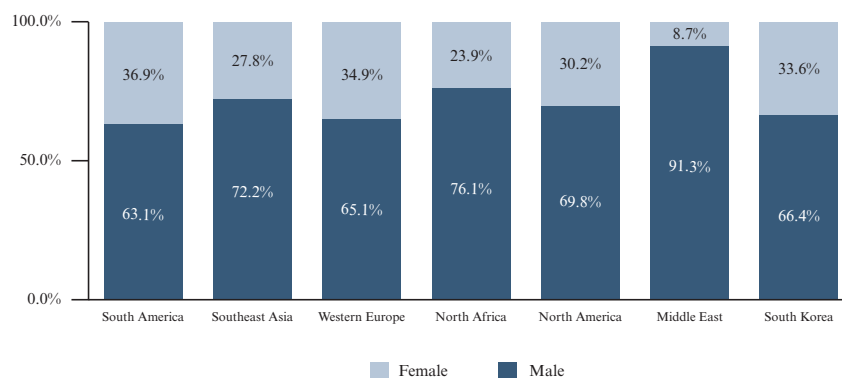
- **Football**

Football is the most popular sport in the world with approximately 1.0 billion football fans globally in 2021. The number of global football fans is expected to reach 1.4 billion in 2026.

Estimated Number of Football Fans Overseas, 2021 and 2026E

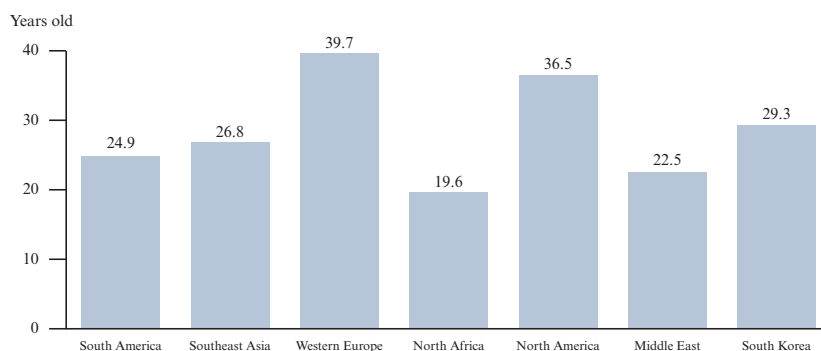


Gender Ratio of Football Fans Overseas, 2021

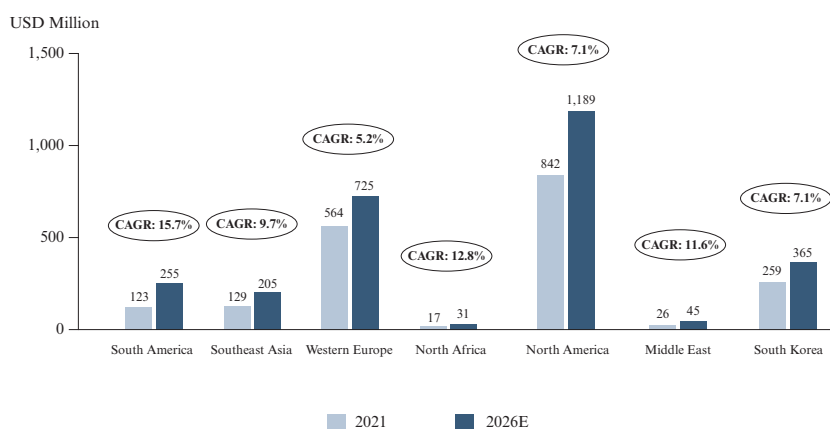


INDUSTRY OVERVIEW

Average Age of Football Fans Overseas, 2021



Market Size of Mobile Football Game Overseas, 2021 and 2026E



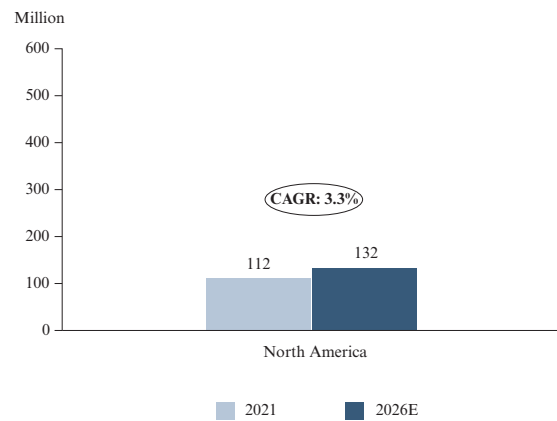
Source: International Federation of Association Football (FIFA), European Club Association (ECA), Major League Soccer (MLS), Frost & Sullivan

- Basketball**

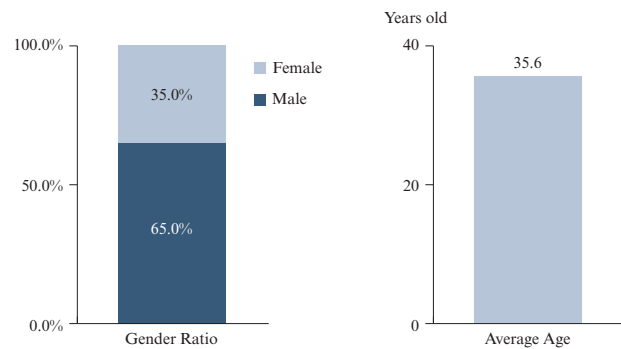
Basketball is one of the most popular sports in North America with a fan base of approximately 112 million in 2021, which is expected to increase at a CAGR of approximately 3.3% to 132 million in 2026. The popularity of basketball in North America is largely attributable to the influence of NBA, a well-recognized and long-established professional basketball association in the United States.

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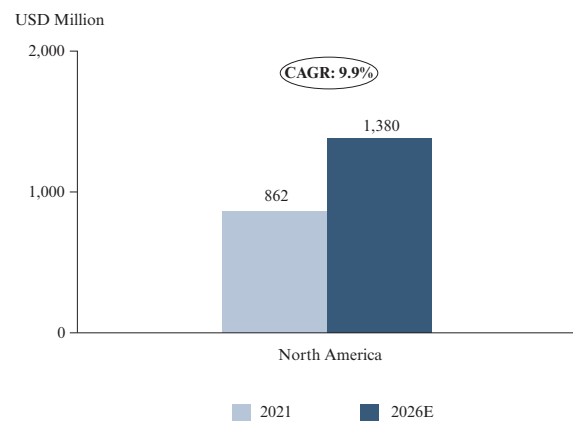
Estimated Number of Basketball Fans in North America, 2021 and 2026E



Gender Ratio and Average Age of Basketball Fans in North America, 2021



Market Size of Mobile Basketball Game in North America, 2021 and 2026E



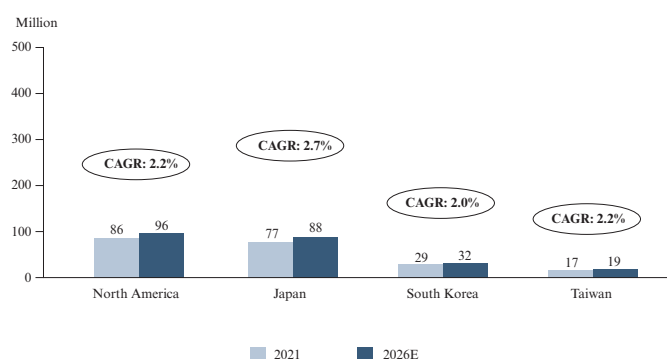
Source: National Basketball Association (NBA), Frost & Sullivan

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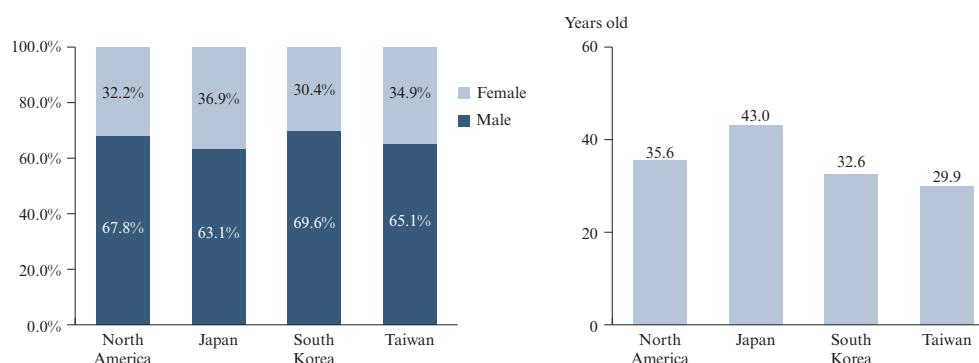
● Baseball

Baseball is a popular sport in North America, Japan, South Korea and Taiwan with fan base of approximately 86 million, 77 million, 29 million and 17 million respectively in 2021. The CAGR of the number of baseball fans from 2021 to 2026 in these four regions is estimated to range from 2% to 3%. Their market size of mobile baseball games in these four regions in 2021 was approximately US\$255 million, US\$318 million, US\$194 million and US\$108 million respectively and is expected to increase to US\$798 million, US\$825 million, US\$583 million and US\$308 million in 2026. The popularity of baseball also rides on the influence of the MLB, a well-recognized and long-established professional baseball league in the United States.

Estimated Number of Baseball Fans Overseas, 2021 and 2026E

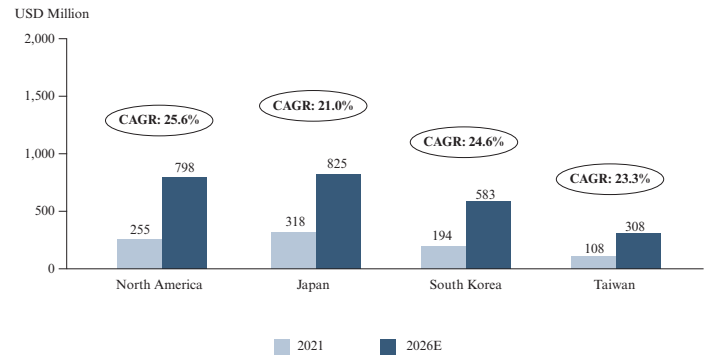


Gender Ratio and Average Age of Baseball Fans in the Overseas, 2021



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Market Size of Mobile Baseball Game Overseas, 2021 and 2026E

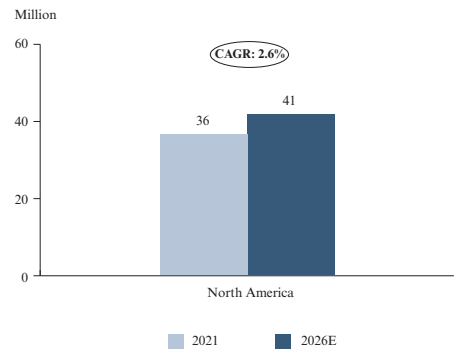


Source: Major League Baseball (MLB), Nippon Professional Baseball (NPB), Korea Baseball Organization (KBO), Chinese Professional Baseball League (CPBL), Frost & Sullivan

● American football

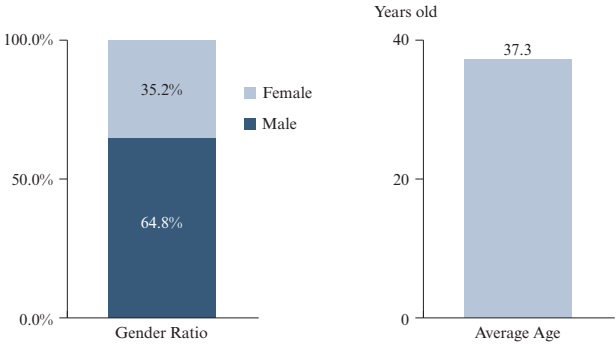
American football evolved in the United States and has become one of the most popular sports in North America. The fan base of American football reached approximately 36 million in North America in 2021 and is expected to increase to 41 million in 2026. The market size of mobile American football games in North America was US\$1,625 million in 2021 and is expected to increase to US\$2,434 million in 2026. The NFL is the major American football league with a large fan base in the North America.

Estimated Number of American Football Fans in North America, 2021 and 2026E

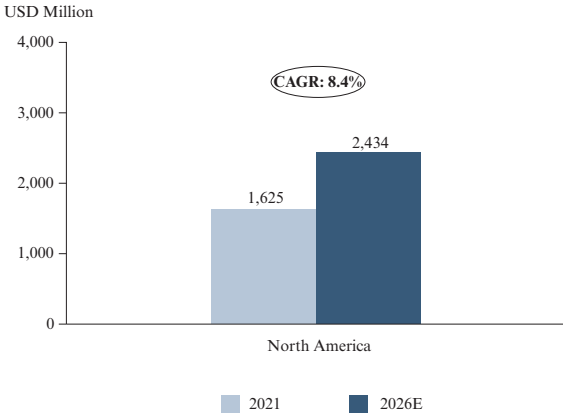


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Gender Ratio and Average Age of American Football Fans in North America, 2021



Market Size of Mobile American Football Game in North America, 2021 and 2026E



Source: National Football League (NFL), Frost & Sullivan

Threats and challenges

Uncontrolled pirated mobile games — Certain game developers may imitate and pirate popular mobile sports games in the domestic or overseas market by infringing the intellectual property rights which would cause damage to the interests and reputation of game developers who have committed to contractual licensing arrangement and undermine the sustainability of the online sports game industry.

Limited contractual period of intellectual property licenses — Normally, the contractual period between renowned sports clubs and game developers are limited to one to three years. Upon expiration, if the game developers cannot successfully compete with other industry players for renewal of the license, they could no longer retain the sports clubs as images in their games. To face with the challenges of limited contractual period, game developers have to continuously improve their market competitiveness to maintain dominant position in the market.

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COMPETITIVE LANDSCAPE ANALYSIS

The integrated online sports game companies are the game companies who are able to develop and publish online sports games, including online sports simulation games and online battle sports games, independently. Generally, companies with (i) a team of professional talents with deep understanding of both the sports and online game industry; (ii) substantial capital for acquiring intellectual property rights, securing game engines, running promotion and marketing campaigns and hiring sports stars as spokespersons; (iii) strong reputation and track record to secure collaboration with sports clubs and sports leagues and third-party distribution platforms such as mobile app stores; and (iv) advanced knowledge and technology to develop games with immersive and interactive experiences which are less easily replicable than games with low costs and skills, have higher bargaining power and are more capable of maintaining sustainability in their competitiveness and strong market influence.

As of December 31, 2021, there were approximately 480 market players in the online sports game market in the PRC. The market is fragmented with many relatively small companies with insignificant market influence and is dominated by the largest market player (Company A) with approximately 19.6% of market share in terms of revenue from online sports game in 2021. The mobile sports simulation game industry in the PRC is also evolving rapidly and is highly competitive, as manifested by the frequent introduction of new products and services, limited product lifecycle for certain game models, continuous introduction of new technological and equipment enhancement, evolving industry standards and constantly changing user demands and preferences. Other than local sports game developers and publishers, our Company also competes with leading overseas sports game developers when their games are localized and published in the PRC. Therefore, it is important for market players to obtain the IP right licenses from popular sports leagues, sports associations and/or sports clubs in order to create realistic and attractive game content.

The following table shows the top five market players in terms of revenue in the online sports game market in the PRC in 2021.

INDUSTRY OVERVIEW

Ranking	Company name ⁽¹⁾	Description	Number of online sports game and type of sports involved in the game in 2021 ⁽²⁾	Revenue from online sports game in 2021 <i>RMB million</i>	Market share in online sports game market, 2021	Numbers of Sports related IPs, as of the Latest Practicable Date ⁽³⁾
1	Company A	Founded in 1998, it is a Chinese internet company headquartered in Shenzhen. It is listed on HKEx and it is also one of the world’s largest social media companies.	Football (4); basketball (3); snooker (1)	1,643.7	19.6%	4
2	Company B	Founded in 1982, it is an American game company headquartered in Redwood City. It is a listed company on NASDAQ.	Football (3)	502.7	6.0%	2
3	<i>Our Group</i>	<i>Founded in 2013, it is a Chinese game company headquartered in Shenzhen.</i>	<i>Football (2); basketball (1)</i>	<i>459.9</i>	<i>5.5%</i>	<i>9</i>
4	Company C	Founded in 1997, it is a Chinese internet company headquartered in Beijing. It is a listed company on NASDAQ.	Football (2); basketball (1)	458.6	5.5%	7
5	Company D	Founded in 1969, it is a Japanese game company headquartered in Tokyo. It is a listed company in LSE.	Football (2)	334.3	4.0%	7
				Top 5	3,399.2	40.6%
				Total	8,400.0	100.0%

Source: Data.ai, Frost & Sullivan

Notes:

- (1) The identities of the competitors are not disclosed as the consents from these relevant competitors have not been obtained as of the Latest Practicable Date.
- (2) All the online sports games operated by Companies A, B, C and D are Model B games.
- (3) The numbers of sports related IP are the total number of IPs applied in the sports games they launch in the PRC market.

INDUSTRY OVERVIEW

The following table shows the top five market players in terms of revenue in the mobile sports game market in the PRC in 2021.

Ranking	Company name ⁽¹⁾	Description	Number of mobile sports game and type of sports involved in the game in 2021 ⁽²⁾	Revenue from mobile sports game in 2021 <i>RMB million</i>	Market share in mobile sports game market, 2021	
1	Company A	Founded in 1998, it is a Chinese internet company headquartered in Shenzhen. It is listed on HKEx and it is also one of the world's largest social media companies.	Football (3); basketball (2); snooker (1)	1,341.3	23.1%	
2	<i>Our Group</i>	<i>Founded in 2013, it is a Chinese game company headquartered in Shenzhen.</i>	<i>Football (2); basketball (1)</i>	<i>459.9</i>	<i>7.9%</i>	
3	Company C	Founded in 1997, it is a Chinese internet company headquartered in Beijing. It is a listed company on NASDAQ.	Football (2); basketball (1)	458.6	7.9%	
4	Company B	Founded in 1982, it is an American game company headquartered in Redwood City. It is a listed company in NASDAQ.	Football (2)	393.1	6.8%	
5	Company D	Founded in 1969, it is a Japanese game company headquartered in Tokyo. It is a listed company in LSE.	Football (2)	334.3	5.8%	
				Top 5	2,987.2	51.5%
				Total	5,800.0	100.0%

Source: Data.ai, Frost & Sullivan

Notes:

- (1) The identities of the competitors are not disclosed as the consents from these relevant competitors have not been obtained as of the Latest Practicable Date.
- (2) All the mobile sports games operated by Companies A, B, C and D are Model B games.

INDUSTRY OVERVIEW

The following table shows the top five market players in terms of revenue in the mobile sports simulation game market in the PRC in 2021.

Ranking	Company name ⁽¹⁾	Description	Number of mobile sports simulation game and type of sports involved in the game in 2021 ⁽²⁾	Revenue from mobile sports simulation game in 2021 <i>RMB million</i>	Market share in mobile sports simulation game market, 2021
1	Company A	Founded in 1998, it is a Chinese internet company headquartered in Shenzhen. It is listed on HKEx and it is also one of the world's largest social media companies.	Football (3); basketball (1)	926.0	25.0%
2	<i>Our Group</i>	<i>Founded in 2013, it is a Chinese game company headquartered in Shenzhen.</i>	<i>Football (2); basketball (1)</i>	<i>459.9</i>	<i>12.4%</i>
3	Company C	Founded in 1997, it is a Chinese internet company headquartered in Beijing. It is a listed company on NASDAQ.	Football (2)	408.5	11.0%
4	Company B	Founded in 1982, it is an American game company headquartered in Redwood City. It is a listed company on NASDAQ.	Football (2)	393.1	10.6%
5	Company D	Founded in 1969, it is a Japanese game company headquartered in Tokyo. It is a listed company on LSE.	Football (2)	334.3	9.0%
				<hr/>	<hr/>
Top 5				2,521.8	68.0%
Total				3,700.0	100.0%

Source: Data.ai, Frost & Sullivan

Note:

- (1) The identities of the competitors are not disclosed as the consents from these relevant competitors have not been obtained as of the Latest Practicable Date.
- (2) All the mobile sports simulation games operated by Companies A, B, C and D are Model B games.

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The following table sets out the four basketball-themed simulation games launched in the PRC as at December 31, 2021 that have acquired IP right licenses from NBA and their respective market share by revenue in 2021.

Game	Description	Market share in mobile sports simulation game market in 2021	Revenue of the game in 2021 (RMB million)	Model of game
1. Game A	Game A was released in 2017 by a Chinese multinational technology company listed on the Stock Exchange.	11.7%	432.0	Model B
2. <i>NBA Basketball Master</i> (籃球大師)		4.7%	176.7	Model B
3. Game B	Game B was released in 2020 by a private game developer based in the PRC.	0.4%	15.6	Model B
4. Game C	Game C was released in 2019 by a private game developer based in the PRC.	0.1%	3.1	Model B

Source: Data.ai, Frost & Sullivan

Notes: The names of the competing games are not disclosed as the consents from these relevant game developers and/or publishers have not been obtained as of the Latest Practicable Date.

All these relevant basketball-themed simulation games in the PRC listed above are Model B games because, unlike Model A games, the game developers have incurred resources and capital to acquire or secure the IP licensing agreements with NBA to extend the lifecycle of the games.

The following table sets out the 14 football-themed simulation games launched in the PRC as at December 31, 2021 that have acquired IP right licenses from FIFA and their respective market share by revenue in 2021.

Game	Description	Market share in mobile sports simulation game in 2021	Revenue of the game in 2021 (RMB million)	Model of game
1. Game D	Game D was released in 2020 by a Chinese multinational technology company listed on the Stock Exchange.	17.0%	630.1	Model B
2. Game E	Game E was released in 2018 by a Chinese internet technology company listed on NASDAQ and the Stock Exchange	8.7%	321.3	Model B
3. Game F	Game F was released in 2018 by a Chinese internet technology company listed on NASDAQ and the Stock Exchange.	4.0%	148.4	Model B

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Game	Description	Market share in mobile sports simulation game in 2021	Revenue of the game in 2021 (RMB million)	Model of game
4. <i>Football Champion</i> (最佳11人 — 冠 軍球會)		4.0%	148.2	Model B
5. <i>Football Master</i> (足球大師)		3.6%	135.0	Model B
6. Game G	Game G was released in 2018 by a Chinese multinational technology company listed on the Stock Exchange.	3.5%	128.5	Model B
7. Game H	Game H was released in 2015 by a Chinese multinational technology company listed on the Stock Exchange.	3.3%	122.3	Model B
8. Game I	Game I was released in 2021 by a private game developer based in the PRC.	0.8%	28.1	Model B
9. Game J	Game J was released in 2017 by a private game developer based in the PRC.	0.7%	25.3	Model B
10. Game K	Game K was released in 2019 and jointly developed by a private game company based in the PRC and a Chinese internet technology company listed on NASDAQ and the Stock Exchange.	0.6%	21.1	Model B
11. Game L	Game L was released in 2019 by a private internet technology company based in the PRC.	0.3%	10.2	Model B
12. Game M	Game M was released in 2018 by a private internet technology company based in the PRC.	0.2%	6.3	Model B
13. Game N	Game N was released in 2018 by a private game publisher based in the PRC.	0.1%	4.2	Model B
14. Game O	Game O was released in 2020 by a private network technology company based in the PRC.	0.1%	2.2	Model B

Source: Data.ai, Frost & Sullivan

Notes: The names of the competing games are not disclosed as the consents from these relevant game developers and/or publishers have not been obtained as of the Latest Practicable Date.

All these relevant football-themed simulation games in the PRC listed above are Model B games because, unlike Model A games, the game developers have incurred resources and capital to acquire or secure the IP licensing agreements with FIFPro to extend the lifecycle of the games.

In 2021, our Company ranked second in the mobile sports game market in the PRC, in terms of revenue from mobile sports game, with a market share of 7.9%. In 2021, our Company also ranked second in the mobile sports simulation game market in the PRC, in terms of revenue from mobile sports simulation games, with a market share of 12.4%. In the same year, our Company ranked third in the online sports game market in the PRC, in terms of revenue from online sports game, with a market shares of 5.5%.

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In addition to the PRC market, our Company has also expanded our footprint into various overseas markets, among which our Directors consider, based on the available market data and our overseas performance in 2021, Vietnam and South Korea as the most material overseas markets of our Group during the Track Record Period, where we launched our *Football Master* (足球大師) and *Football Champion* (最佳11人 — 冠軍球會). Among the football simulation games with IP right licenses from FIFPro, *Football Champion* (最佳11人 — 冠軍球會) ranked first with approximately 3.4% market share in the sports simulation game market in Vietnam in 2021. In addition, *Football Master* (足球大師) ranked second with approximately 2.4% market share in the sports simulation game market in Vietnam in 2021. Among the football simulation games with IP right licenses from FIFPro, *Football Champion* (最佳11人 — 冠軍球會) ranked third with approximately 0.8% market share in the sports simulation game market in South Korea in 2021. The rankings and market shares of *Football Master* (足球大師) and *Football Champion* (最佳11人 — 冠軍球會) among the top five football simulation games which have acquired the IP right licenses from FIFPro in Vietnam and South Korea in 2021, are set out below:

Game	Description	Vietnam		South Korea		Model of game ⁽⁵⁾
		Ranking among football simulation games with IP right licenses from FIFPro ⁽²⁾	Market share in sports simulation game market in 2021 ⁽²⁾	Ranking among football simulation games with IP right licenses from FIFPro	Market share in sports simulation game market in 2021	
<i>Football Champion</i> (最佳11人 — 冠軍球會)		1	3.4%	3	0.8%	Model B
<i>Football Master</i> (足球大師)		2	2.4%	6	0.01%	Model B
Game R	Game R was released in 2016 by an American game company listed on NASDAQ.	3	2.3%	—	—	Model B
Game P	Game P was released in 2011 by a private game developer based in the UK.	4	2.0%	4	0.8%	Model B
Game H	Game H was released in 2015 by a South Korean game publisher listed on Tokyo Stock Exchange ⁽³⁾ .	5	1.8%	1	16.5%	Model B
Game D	Game D was released in 2020 by a South Korean game publisher listed on Tokyo Stock Exchange ⁽⁴⁾ .	—	—	2	9.7%	Model B
Game Q	Game Q was released in 2013 by a private game developer based in the UK.	—	—	5	0.7%	Model B

Source: Data.ai, Frost & Sullivan

Notes:

- (1) The names of the competing games are not disclosed as the consents from these relevant game developers and/or publishers have not been obtained as of the Latest Practicable Date.
- (2) The rankings and market shares are calculated based on the top up amount which is defined as payment made by the paying users and credited to the user's game account, and thus not audited.

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- (3) Game H was also released in the PRC in 2015 by a Chinese multinational technology company listed on the Stock Exchange.
- (4) Game D was also released in the PRC in 2020 by a Chinese multinational technology company listed on the Stock Exchange.
- (5) All these relevant top five football-themed simulation games in Vietnam and South Korea listed above are Model B games because, unlike Model A games, the game developers have incurred resources and capital to acquire or secure the IP licensing agreements with FIFPro to extend the lifecycle of the games.

COVID-19 PANDEMIC: INDUSTRY IMPACT

According to the Frost & Sullivan Report, the COVID-19 pandemic will not have any material adverse impact on the growth of online and mobile game market in the PRC and the world. On the contrary, it may boost the growth of online and mobile game market as part of indoor entertainment for self-quarantine during the outbreak of COVID-19. Frost & Sullivan confirms that the market forecast disclosed in this section has taken into account the impact of the outbreak of COVID-19. The online user activity is a significant indicator for assessing the online and mobile game market. According to China Internet Network Information Center, the average online user activity per week in the PRC increased from 27.6 hours in December 2019 prior to the widespread of COVID-19 pandemic to 30.8 hours during the outbreak of COVID-19 pandemic in March 2020 and then resumed back to 26.2 hours in December 2020. Therefore, the outbreak of COVID-19 pandemic in early 2020 in the PRC, to a certain extent, may have temporary favourable impact on the general level of the time users spend on online and/or mobile games as a whole as people may be compelled to stay indoors and opt for indoor entertainment in lieu of outdoor activities such as online and/or mobile games due to various lockdown measures implemented by the local governments. As of the Latest Practicable Date, the social distancing and various lockdown measures have been gradually removed by the PRC government, and it is expected that people may gradually spend more time on outdoor activities which may in turn reduce their average online gaming time. Nevertheless, the removal of social distancing and various lockdown measures is beneficial to mobile sports simulation games to the extent that if the real-life sports events return to normal schedule, the game developers would be able to synchronize its mobile sports simulation games with the actual events and development of the real-life sports world to maintain and boost the popularity of the games. In addition, sports fans would be able to participate in more offline gatherings and meet each other in person should the social distancing and various lockdown measures are removed, which may in turn strengthen their passions for such sports and accordingly spend more time on mobile sports simulation games.

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REGULATIONS ON FOREIGN INVESTMENT

Investment activities in the PRC by foreign investors are principally governed by the Catalog of Industries for Encouraging Foreign Investment (the “**Encouraging Catalog**”) and the Special Management Measures (Negative List) for the Access of Foreign Investment (the “**Negative List**”) which were promulgated and are amended from time to time by the Ministry of Commerce (the “**MOFCOM**”) and the National Development and Reform Commission (the “**NDRC**”), and together with the PRC Foreign Investment Law and their respective implementation rules and ancillary regulations. The Encouraging Catalog and the Negative List lay out the basic framework for foreign investment in China, classifying businesses into three categories with regard to foreign investment: “encouraged”, “restricted” and “prohibited”. Industries not listed in the Catalog are generally deemed as falling into a fourth category “permitted” unless specifically restricted by other PRC laws.

On December 27, 2020, MOFCOM and the NDRC released the Catalog of Industries for Encouraging Foreign Investment (2020 Version), which became effective on January 27, 2021, to replace the previous Encouraging Catalog. On December 27, 2021, MOFCOM and the NDRC released the 2021 Negative List, which became effective on January 1, 2022, to replace the previous Negative List.

On March 15, 2019, the National People’s Congress promulgated the Foreign Investment Law (《外商投資法》) (the “**FIL**”), which became effective on January 1, 2020 and 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-Owned Enterprises Law (《外資企業法》) together with their implementation rules and ancillary regulations. Pursuant to the FIL, “foreign investments” refers to investment activities conducted by foreign investors directly or indirectly in the PRC, which include any of the following circumstances: (i) foreign investors setting up foreign-invested enterprises in the PRC solely or jointly with other investors, (ii) foreign investors obtaining shares, equity interests, property portions or other similar rights and interests of enterprises within the PRC, (iii) foreign investors investing in new projects in the PRC solely or jointly with other investors, and (iv) investment of other methods as specified in laws, administrative regulations, or as stipulated by the State Council.

According to the FIL, foreign investments shall enjoy pre-entry national treatment, except for those foreign invested entities that operate in industries deemed to be either “restricted” or “prohibited” in the Negative List. The FIL provides that foreign invested entities operating in foreign “restricted” or “prohibited” industries will require entry clearance and other approvals. The FIL does not comment on the concept of “de facto control” or contractual arrangements with variable interest entities, however, it has a catch-all provision under definition of “foreign investment” to include investments made by foreign investors in China through means stipulated by laws or administrative regulations or other methods prescribed by the State Council. Therefore, it still leaves leeway for future laws, administrative regulations or provisions to provide for contractual arrangements as a form of foreign investment.

The FIL also provides several protective rules and principles for foreign investors and their investments in the PRC, including, among others, that local governments shall abide by their commitments to the foreign investors; foreign-invested enterprises are allowed to issue stocks and corporate bonds; except for special circumstances, in which case statutory procedures shall be followed and fair and reasonable compensation shall be made in a timely manner, expropriate or requisition the investment of foreign investors is prohibited; mandatory technology transfer is prohibited, allows foreign investors’ funds to be freely transferred out and into the territory of PRC, which run through the entire lifecycle from the entry to the exit of foreign investment, and provide

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an all-around and multi-angle system to guarantee fair competition of foreign-invested enterprises in the market economy. In addition, foreign investors or the foreign investment enterprise should be imposed legal liabilities for failing to report investment information in accordance with the requirements. Furthermore, the FIL provides that foreign-invested enterprises established according to the existing laws regulating foreign investment may maintain their structure and corporate governance within five years after the implementing of the FIL, which means that foreign invested enterprises may be required to adjust the structure and corporate governance in accordance with the current PRC Company Law and other laws and regulations governing the corporate governance.

On December 26, 2019, the State Council promulgated the Implementation Rules to the Foreign Investment Law (《外商投資法實施條例》), which became effective on January 1, 2020. The implementation rules further clarifies that the state encourages and promotes foreign investment, protects the lawful rights and interests of foreign investors, regulates foreign investment administration, continues to optimize foreign investment environment, and advances a higher-level opening.

On December 30, 2019, MOFCOM and the State Administration for Market Regulation (the “SAMR”), jointly promulgated the Measures for Information Reporting on Foreign Investment (《外商投資信息報告辦法》), which became effective on January 1, 2020. Pursuant to the Measures for Information Reporting on Foreign Investment, where a foreign investor carries out investment activities in China directly or indirectly, the foreign investor or the foreign-invested enterprise shall submit the investment information to the competent commerce department.

On December 19, 2020, the NDRC and the MOFCOM jointly promulgated the Measures on the Security Review of Foreign Investment (《外商投資安全審查辦法》), effective on January 18, 2021, which sets forth the provisions concerning the security review mechanism on foreign investment, including, amongst others, the types of investments subject to review, review scopes and procedures. The Office of the Working Mechanism of the Security Review of Foreign Investment (外商投資安全審查工作機制辦公室) (the “**Office of the Working Mechanism**”) will be established under the NDRC which will lead the task together with the MOFCOM. Foreign investor or relevant parties in China must declare the security review to the Office of the Working Mechanism prior to (i) the investments in the military industry, military industrial supporting and other fields relating to the security of national defense, and investments in areas surrounding military facilities and military industry facilities; and (ii) investments in important agricultural products, important energy and resources, important equipment manufacturing, important infrastructure, important transport services, important cultural products and services, important information technology and Internet products and services, important financial services, key technologies and other important fields relating to national security, and to obtain control in the target enterprise. “Control” as contemplated in item (ii) of the preceding sentence exists when the foreign investor (a) holds over 50% equity interests in the target enterprise, (b) has voting rights that can have material influence on the resolutions of the board of directors or shareholders meeting of the target enterprise even when it holds less than 50% equity interests in the target enterprise, or (c) has material influence on the target enterprise’s business decisions, human resources, accounting and technology.

On April 2, 2022, the CSRC published the revised Provisions on Strengthening Confidentiality and Archives Administration of Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments) (《關於加強境內企業境外發行證券和上市相關保密和檔案管理工作的規定(徵求意見稿)》) (the “**Draft Archives Rules**”), which had a comment period that expired on April 17, 2022. The Draft Archives Rules require that, in relation to the overseas listing activities of domestic enterprises, such domestic enterprises, as well as securities companies and securities service institutions providing relevant securities services, are required to strictly comply with the relevant

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requirements on confidentiality and archives management, establish a sound confidentiality and archives system, and take necessary measures to implement their confidentiality and archives management responsibilities. Under the Draft Archives Rules, the “domestic enterprises” refer to the domestic joint stock limited companies listing overseas directly and the domestic operation entities of a non-PRC company listing overseas. According to the Draft Archives Rules, during the course of an overseas offering and listing, if a domestic enterprise needs to publicly disclose or provide to securities companies, accounting firms or other securities service providers and overseas regulators, any materials that contain relevant state secrets, government work secrets or that have a sensitive impact (i.e. be detrimental to national security or the public interest if divulged), the domestic enterprise should complete the relevant approval/filing and other regulatory procedures. However, there remain uncertainties regarding the further interpretation and implementation of the Draft Archives Rules. As of the Latest Practicable Date, the Draft Archives Rules has not been formally adopted.

REGULATIONS RELATING TO VALUE-ADDED TELECOMMUNICATION SERVICES

Licenses for Value-added Telecommunications Services

The Telecommunications Regulations of the People’s Republic of China (《中華人民共和國電信條例》) (the “**Telecommunications Regulations**”), promulgated by the State Council of the PRC (the “**State Council**”) on September 25, 2000 and last amended on February 6, 2016, provides a regulatory framework for telecommunications services providers in the PRC. The Telecommunications Regulations requires telecommunications services providers to obtain an operating license prior to the commencement of their operations. The Telecommunications Regulations categorizes telecommunications services into basic telecommunications services and value-added telecommunications services. According to the Catalog of Telecommunications Services (《電信業務分類目錄》), attached to the Telecommunications Regulations, which was promulgated by the Ministry of Information Industry of the PRC (the “**MI**”, which is the predecessor of the Ministry of Industry and Information Technology (the “**MIIT**”) on February 21, 2003 and amended by the MIIT on December 28, 2015 and June 6, 2019, respectively, stipulates that information services provided via fixed network, mobile network and Internet fall within value-added telecommunications services.

On March 1, 2009, the MIIT issued the Administrative Measures for the Licensing of Telecommunications Business (《電信業務經營許可管理辦法》) (the “**Telecom Licensing Measures**”), which took effect on April 10, 2009 and was last amended on July 3, 2017. The Telecom Licensing Measures confirms that there are two types of telecom operating licenses for operators in China, namely, licenses for basic telecommunications services and licenses for value-added telecommunications services (the “**VATS License**”). The operation scope of the license will detail the permitted activities of the enterprise to which it was granted. An approved telecommunications services operator shall conduct its business in accordance with the specifications listed in its VATS License. In addition, the holder of a VATS License is required to obtain approval from the original issuing authority in respect of any change to its shareholders.

On September 25, 2000, the State Council promulgated the Administrative Measures for Internet Information Services (《互聯網信息服務管理辦法》) (the “**Internet Information Measures**”), which was amended on January 8, 2011. Under the Internet Information Measures, commercial Internet information services operators shall obtain a VATS License with the business scope of Internet information service (an “**ICP License**”), from the relevant government authorities before engaging in any commercial Internet information services operations. The provision of information services through mobile applications is subject to the PRC laws and regulations governing internet information services. In addition, on June 28, 2016, the State Internet Information Office

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promulgated 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》) (the “**Mobile Application Administrative Provisions**”), which was amended on June 14, 2022, to strengthen the regulation of the mobile application information services. Pursuant to the Mobile Application Administrative Provisions, an internet application program provider must verify a user’s mobile phone number and other identity information under the principle of mandatory real name registration at the back-office end and voluntary real name display at the front-office end. An internet application program provider shall not compel users to agree to non-essential personal information collection out of any reason, and shall be prohibited from banning users from their basic functional services due to the users’ refusal of providing non-essential personal information. Furthermore, on December 16, 2016, the MIIT promulgated the Interim Administrative Provisions on the Pre-Installation and Distribution of Mobile Smart Terminal Application Software (《移動智能終端應用軟件預置和分發管理暫行規定》) (the “**Mobile Application Interim Provisions**”), which took effect on July 1, 2017. The Mobile Application Interim Provisions requires, among others, that Internet information services providers must ensure that a mobile application, as well as its ancillary resource files, configuration files and user data can be uninstalled by a user on a convenient basis, unless it is a basic functional software, which refers to a software that supports the normal functioning of hardware and operating system of a mobile smart device.

The content of the Internet information is highly regulated in China and pursuant to the Internet Information Measures, the PRC government may shut down the websites of ICP License holders and revoke their ICP Licenses if they produce, reproduce, disseminate or broadcast Internet content that contains content that is prohibited by law or administrative regulations. Commercial Internet information services operators are also required to monitor their websites. They may not post or disseminate any content that falls within the prohibited categories, and must remove any such content from their websites, save the relevant records and make a report to the relevant governmental authorities.

Foreign Investment in Value-added Telecommunications Services

Foreign direct investment in telecommunications companies in China is governed by the Administrative Provisions on Foreign-Invested Telecommunications Enterprises (2016 Revision) (《外商投資電信企業管理規定》(2016年修訂)), which was promulgated by the State Council on December 11, 2001 and amended on September 10, 2008 and February 6, 2016. The regulations require foreign-invested value-added telecommunications enterprises in China to be established as Sino-foreign equity joint ventures, which the foreign investors may acquire up to 50% of the equity interests of such enterprise. In addition, the main foreign investor who invests in a foreign-invested value-added telecommunications enterprises operating the value-added telecommunications business in China must demonstrate a good track record and experience in operating a value-added telecommunications business. Moreover, foreign investors that meet these requirements must obtain approvals from the MIIT and the MOFCOM, or their authorized local counterparts, for the commencement of that investor of value-added telecommunication business in China. On March 29, 2022, the Decision of the State Council on Revising and Repealing Certain Administrative Regulations (《國務院關於修改和廢止部分行政法規的決定》), which took effect on May 1, 2022, was promulgated to amend certain provisions of regulations including the Administrative Provisions on Foreign-Invested Telecommunications Enterprises (2016 Revision). The requirement for major foreign investors of a foreign-invested telecommunications enterprise to demonstrate a good track record and experience in operating value-added telecommunications businesses was removed.

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In 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》) (the “**MI Circular**”), pursuant to which, domestic telecommunications enterprises were prohibited to rent, transfer or sell a telecommunications business operation license to foreign investors in any form, or provide any resources, premises, facilities and other assistance in any form to foreign investors for their illegal operation of any telecommunications business in China. In addition, under the MII Circular, the Internet domain names and registered trademarks used by a foreign-invested value-added telecommunication service operator shall be legally owned by that operator (including any shareholder thereof).

According to the 2021 Negative List, the foreign-invested shares of a value-added telecommunications services company shall not exceed 50% (except for e-commerce, domestic multiparty communications services, store and forward services and call center services). Article 6 of the Interpretation Note of the 2021 Negative List (“**Article 6**”) provides that “where a domestic enterprise engaged in the business within the prohibited areas of the Negative List on Access to Foreign Investment seeks to issue and list its shares overseas, it shall complete the examination process and obtain approval of the relevant competent authorities of the State, and the foreign investor shall not participate in the operation and management of the enterprise, and its shareholding percentage shall be subject to the relevant provisions on the administration of domestic securities investment by foreign investors.” On January 18, 2022, a press conference was held by the NDRC to further clarify the position of Article 6, during which the spokesman made it clear that Article 6 shall only be applicable to the situations where domestic enterprises were seeking a direct overseas issuance and listing (i.e. H-shares listing). Also, the principle of non-retroactivity of the law would be followed and a proper transitional period would be provided according to the press conference held by CSRC on December 24, 2021 regarding the implementation of the Draft Overseas Listing Administration Provisions and the Draft Overseas Listing Filing Measures. As such, our PRC Legal Advisers are of the view that Article 6 of the Interpretation Note of the 2021 Negative List only applies to a PRC domestic company’s direct overseas offering and an overseas listing adopting VIE structure through contractual arrangements which constitutes an indirect overseas offering, such as the [REDACTED] of the Company, does not fall within the scope of Article 6 and therefore is not subject to such provision as of the Latest Practicable Date. As a result, the Company would not be prohibited from future fund raisings solely based on the Negative List as of the Latest Practicable Date.

REGULATIONS ON ONLINE GAMES PUBLISHING AND OPERATION

Regulatory Authorities

The Notice on Circulating the Interpretation of the State Commission Office for Public Sector Reform on Some of the Articles in the “Three Provisions” for the MOC, the State Administration of Radio, Film and Television (the “**SARFT**”, subsequently known as the State Administration of Press, Publication, Radio, Film and Television, the “**SAPPRFT**” and currently known as the National Radio and Television Administration, the “**NRTA**”) and the General Administration of Press and Publication (the “**GAPP**”) concerning Animated Games, Online Games and Comprehensive Law Enforcement in the Culture Market (《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》), which was issued by the State Commission Office for Public Sector Reform (a division of the State Council) and became effective on September 7, 2009, provides that the GAPP (which is now part of the National Radio and Television Administration) will be responsible for the examination and approval of online games to be uploaded on the Internet.

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The MCT at the national level closed the online filing system for online games since July 2018. In May 2019, the General Office of the MCT released the Notice on Adjusting the Scope of Examination and Approval regarding the Internet Cultural Operation License to Further Regulate the Approval Work (《關於調整〈網絡文化經營許可證〉審批範圍進一步規範審批工作的通知》, the “**Notice on Adjusting Examination and Approval Scope**”), which further specifies that the MCT no longer assumes the responsibility for the administration of online games industry. On July 10, 2019, the MCT issued the Decision of the Ministry of Culture and Tourism on revocation the Interim Measures for the Administration of Online Games and the Measures for Planning and Administration of Tourism Development (《文化和旅遊部關於廢止〈網絡遊戲管理暫行辦法〉和〈旅遊發展規劃管理辦法〉的決定》), which specifies that the Interim Administrative Measures for Online Games (《網絡遊戲管理暫行辦法》) (the “**Online Game Measures**”) was abolished by the MCT on July 10, 2019. Based on the above, our PRC Legal Advisers have advised that (i) after the Notice on Adjusting Examination and Approval Scope was released, the MCT no longer assumes the supervision responsibility for the distribution and operation of online games; (ii) as of the Latest Practicable Date, no PRC laws and regulations have been officially promulgated regarding whether the responsibility of the MCT for supervising the online games will be undertaken by another governmental department, so it is still unclear as to whether such supervision responsibility will be transferred to another governmental department or whether such governmental department will require similar supervision requirement or new supervision requirements for the distribution and operation of online games. Accordingly, as advised by our PRC Legal Advisers, the Internet Culture Operation License (the “**ICO License**”), which used to be granted by MCT in the abolished regulation regime, was no longer required following a consultation with the Department of Culture and Tourism of Guangdong Province (廣東省文化和旅遊廳) which confirmed that it is not necessary for an enterprise to obtain the ICO License to conduct online game operation business. For the same reason, our collaborating partners, such as co-developers and third-party publishers, were no longer required to possess ICO License in order to cooperate with our Group. Further, during the Track Record Period, we did not receive any administrative sanctions in relation to the validity of our collaborating partners’ ICO Licenses from the PRC government. However, we will closely monitor the latest regulatory developments on the requirements of the ICO License, if any, and strive to comply with any new applicable laws and regulations. As of the Latest Practicable Date, the latest ICO Licenses obtained by our Group in relation to Wangchen Technology and Moji Technology had expired on February 15, 2020 and October 10, 2019, respectively. As of the Latest Practicable Date, our Group is not required to and therefore does not intend to renew the expired ICO License or obtain new ICO License after the respective expiry for the purpose of operating our Group’s mobile games.

Online Game Examination and Publishing

The Administrative Provisions on Online Publishing Services (《網絡出版服務管理規定》) (the “**Online Publishing Measures**”) were jointly promulgated by the SAPPRFT (currently known as the NRTA) and the MIIT on February 4, 2016 and became effective on March 10, 2016. The Online Publishing Measures imposed a license requirement for “online publishing services”, which refers to providing online publications to the public through information networks, and “online publications” refers to edited, produced or processed digital works that are provided to the public through information network, including, *inter alia*, games. The license requirement is that an entity shall, for the purpose of engaging in online publishing services, be approved by publishing authorities and obtain the Online Publishing Service License (網絡出版服務許可證). According to the Online Publishing Measures, before publishing an online game, an online publishing service provider shall file an application with the competent provincial counterpart of the SAPPRFT (currently known as

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the NRTA) in the place where it is located and the application, if approved, shall be submitted to the SAPPRFT (currently known as the NRTA) for approval. An online game shall not be launched without the prior approval of the SAPPRFT (currently known as the NRTA).

The SAPPRFT (currently known as the NRTA) promulgated the Notice of the General Office of the SAPPRFT on the Administration of Mobile Games Publishing Services (《國家新聞出版廣電總局辦公廳關於移動遊戲出版服務管理的通知》) (“**Mobile Game Notice**”), on May 24, 2016 and became effective on July 1, 2016. According to the Mobile Game Notice, game publishing services providers shall be responsible for examining the contents of their games and applying for game publication numbers. Concerning those mobile games (including pre-installed mobile games) that have been published and operated online before the implementation of Mobile Game Notice, relevant approval procedures would have to be implemented by the game publishing service entities and enterprises in coordination with the provincial publication administrative departments before October 1, 2016 as required by Mobile Game Notice. Otherwise, these mobile games shall cease to be published or operated online. According to The Notice of the General Office of the SAPPRFT (currently known as the NRTA) on the Extension of “the notice on the management of the publishing service of mobile games” and the Notice of the Time Limit on the Work (《國家新聞出版廣電總局辦公廳關於順延〈關於移動遊戲出版服務管理的通知〉有關工作時限的通知》), issued by the General Office of the SAPPRFT on September 19, 2016, the deadline of the approval formalities was postponed to December 31, 2016.

In March 2018, the Central Committee of the Communist Party of China issued the Plan for Deepening the Institutional Reform of the Party and State (《深化黨和國家機構改革方案》) and the National People’s Congress promulgated the Decision of the First Session of the Thirteenth National People’s Congress on the State Council Institutional Reform Proposal (《第十三屆全國人民代表大會第一次會議關於國務院機構改革方案的決定》) (collectively, the “**Institutional Reform Plans**”). According to the Institutional Reform Plans, the SAPPRFT was reformed and then renamed as the NRTA under the State Council, and the responsibility of the SAPPRFT for the approval of online game registration and issuance of game publication numbers has been transferred to the National Press and Publication Administration (the “**NPPA**”), effective from March 2018. The NPPA at the national level temporarily suspended approval of game registration and issuance of publication numbers for online games since March 2018 and resumed to issue game publication numbers for new online games by batches periodically since December 2018. Subsequently, the game registration and issuance of game publication numbers temporarily suspended again in July 2021, and then resumed in April 2022. During the Track Record Period and up to the Latest Practicable Date, our Group has completed game registration with the relevant government authorities and obtained the game publication numbers for our launched games in the PRC. To the best knowledge of our PRC Legal Advisers and after a verbal consultation via phone inquiry with the NPPA conducted by our PRC Legal Advisers and the Sole Sponsor’s PRC legal advisers through the official service hotline on November 8, 2022, as of the Latest Practicable Date, (i) they were not aware of any new regulations, rules or official notices on suspending or slowing down the approval process for new online games in the PRC; and (ii) applicants of online game approvals can continue to submit application materials according to the prevailing application process and requirements as published on the official website of NPPA. As advised by our PRC Legal Advisers, subject to complete documentation process, the relevant authorities’ discretion and barring any unforeseen circumstances, there is no foreseeable material legal impediment to our Group to complete the game registration and obtain the game publication numbers for our new games in the pipeline, because (i) to the best knowledge of our PRC Legal Advisers, as of the Latest Practicable Date, there are currently no new regulations, rules or official notices on suspending or slowing down the approval process for new online games in the PRC; (ii) on November 8, 2022, our PRC Legal Advisers conducted a phone consultation with the

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NPPA, which confirmed that applicants of online game approvals can continue to submit application materials according to the prevailing application process and requirements as published on the official website of NPPA; and (iii) the NPPA continues publishing the approval information of new online games regularly through its official website as of the Latest Practicable Date. As further advised by our PRC Legal Advisers, to the best of their knowledge, the approval process and procedures for the online game registration and issuance of game publication numbers by the relevant government authorities in the PRC are substantially the same, regardless of the game types of the Group (such as sports management simulation games and sports action simulation games). Based on (i) the view of the PRC Legal Advisers as stated above; (ii) during the Track Record Period and up to the Latest Practicable Date, the Group had not experienced any material difficulty in completing the game registration and obtaining the game publication numbers for the launched games in the PRC; and (iii) the approval of game registration and issuance of publication numbers for online games have been resumed since April 2022, the Directors are of the view that there would be no material adverse impact on our Group’s new games in the pipeline, business operation and financial performance.

Online Game Operation

Pursuant to the Circular on Implementation of the Newly Revised Interim Measures on the Administration of Internet Culture (關於實施新修訂《互聯網文化管理暫行規定》的通知) issued by the MOC on March 18, 2011, the authorities shall temporarily suspend the acceptance of applications by foreign invested internet information services providers for operation of internet culture businesses (other than music). Pursuant to the Interim Measures on the Administration of Internet Culture (《互聯網文化管理暫行規定》) (the “**Internet Culture Measures**”) issued by the MOC on May 10, 2003 and later revised on December 15, 2017, “internet culture products” are defined as including the online games specially produced for internet and games disseminated or distributed through internet, and provision of internet culture products and related services for commercial purpose is subject to the approval of the provincial counterparts of the MOC.

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

On May 14, 2019, the General Office of the Ministry of Culture and Tourism released the Notice on Adjusting the Examination and Approval Scope of Internet Culture Operation License and Further Standardizing the Examination and Approval Work (關於調整《網絡文化經營許可證》審批範圍進一步規範審批工作的通知) (the “**Notice of Adjusting Examination Scope**”), which quotes the Regulations on the Function Configuration, Internal Institutions and Staffing of the MCT (《文化和旅遊部職能配置、內設機構和人員編制規定》) and further specifies that the MCT shall no longer assume the responsibility for administering the industry of online games and shall no longer approve and issue the Internet Culture Operation Licenses within the business scope of “operating online games via the internet,” “operating online games via the internet (including the issuance of virtual currencies used for online games)” and “conducting trade of virtual currencies used for online games via the internet.” Since the abolishment of the Online Game Measures and as of the Latest Practicable Date, no new nor update on the relevant PRC law or regulation (including official guidelines) that comprehensively regulates the online game operation activities has been promulgated. Therefore, our PRC Legal Advisers are of the view that MCT will not continue to grant new approvals or issue new ICO Licenses within the business scope of “operating online games via the internet”, “operating online games via the internet (including the issuance of virtual

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currencies used for online games)” and “conducting trade of virtual currencies used for online games via the internet”. However, it is still unclear as to whether the supervision responsibility of the MCT will be transferred to any another governmental department or whether such governmental department will impose similar or new supervision requirements for the operation of online games in the future.

Virtual Currency and Virtual Item

On February 15, 2007, the Notice on Further Strengthening the Management of Internet Cafes and Online Games (《關於進一步加強網吧及網絡遊戲管理工作的通知》) (the “**Online Games Notice**”) was jointly issued by the MOC, the People’s Bank of China and other governmental authorities with the goal of strengthening the administration of virtual currency in online games and to avoid any adverse impact on the PRC economy and financial system. The Online Games Notice provides that the People’s Bank of China should impose strict limits on the total amount of virtual currency to be issued by online game operators and the amount to be purchased by individual game user (without further specifying the limit amount) and requires a clear delineation between virtual transactions and physical transactions carried out by way of electronic commerce. The Online Games Notice further provides that virtual currency must only be used to purchase virtual items and prohibits any resale of virtual currency.

On June 4, 2009, the MOC and MOFCOM jointly issued the Notice on Strengthening Administration on Online Game Virtual Currency (《關於加強網絡遊戲虛擬貨幣管理工作的通知》) (the “**Online Game Virtual Currency Notice**”). Virtual currency is broadly defined in the Online Game Virtual Currency Notice as a type of virtual exchange instrument issued by online game operators, purchased directly or indirectly by the game user by exchanging legal currency at a certain exchange rate, saved outside the game programs, stored in servers provided by the online game operators in electronic record format and represented by specific numeric units. According to this notice, online game virtual currency should only be used to exchange virtual services provided by the issuing enterprise for a designated extent and time, and is strictly prohibited from being used to purchase tangible products or any service or product of another enterprise.

According to the Notice on Regulating the Operations of Online Games and Strengthening Interim and Ex Post Regulation (《關於規範網絡遊戲運營加強事中事後監管工作的通知》) (the “**Interim and Ex Post Supervision Notice**”) promulgated by the MOC on December 1, 2016 and effective from May 1, 2017, the virtual items, purchased by users directly with legal currency by using the virtual currencies of online games or by exchanging the virtual currencies of online games according to a certain percentage and enabling users to directly exchange for other virtual items or value-added service functions in online games, shall be regulated pursuant to the provisions on virtual currencies of online games. Online game operators shall not provide users with services to exchange virtual items into legal currency. Where it provides users with the option to exchange virtual currencies into physical items of minor value, the contents and value of such physical items shall be in compliance with relevant PRC laws and regulations. The Interim and Ex Post Supervision Notice was abolished by the MCT on August 19, 2019.

REGULATIONS ON ANTI-ADDICTION SYSTEM AND CONTROL OF MYOPIA

Protection of Minors and Anti-addiction

On April 15, 2007, eight PRC government authorities, including the GAPP, the Central Civilization Office, the Ministry of Education, the MPS, the MIIT, the Chinese Communist Youth League, the All-China Women Federation and the China Youth Concern Committee, jointly issued

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the Notice Regarding the Implementation of Anti-addiction System on Online Games in Protecting the Physical and Mental Health of Minors (《關於保護未成年人身心健康實施網絡遊戲防沉迷系統的通知》) (the “**Anti-addiction Notice**”), which requires the implementation of an anti-addiction compliance system by all PRC online game operators in an effort to curb addiction to online games by minors. Under the anti-addiction compliance system, three hours or less of continuous playing by minors, defined as game users 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”. Game operators are required to reduce the value of in-game benefits to a game user by half if it discovers that the amount of time a game user spends online has reached the “fatiguing” level, and to zero in the case of the “unhealthy” level. On January 15, 2011, the MOC (later superseded by the MOCT) and several other government authorities jointly issued the Notice on Implementation Program of Online Game Monitoring System of the Guardians of Minors (《關於印發〈「網絡遊戲未成年人家長監護工程」實施方案〉的通知》) (the “**Monitoring System Notice**”), which requires online game operators to adopt certain measures to maintain an interactive system for the protection of minors.

To identify whether a game user is a minor and thus subject to the anti-addiction compliance system, a real-name registration system should be adopted to require online game users to register their real identity information before playing online games. Pursuant to Notice on Initiating the Real-name Authentication for Online Game Addiction Prevention (《關於啟動網絡遊戲防沉迷實名驗證工作的通知》) (the “**Real-name Authentication Notice**”) issued by the relevant eight government authorities on July 1, 2011, online game (excluding mobile game) operators must submit the identity information of game users to the National Citizen Identity Information Center, a subordinate public institution of the MPS, for verification since October 1, 2011, in an effort to prevent minors from using an adult’s ID to play online games. The most severe punishment contemplated by the Real-name Authentication Notice requires revocation of relevant licenses if it is found in violation of the Anti-addiction Notice and the Real-name Authentication Notice.

On July 25, 2014, SAPPRFT (currently known as the NRTA) issued the Notice on Deeply Carrying out the Real-name Authentication for Online Game Addiction Prevention (《關於深入開展網絡遊戲防沉迷實名驗證工作的通知》) and effected on October 1, 2014, which specifies that subject to the hardware, technology and other factors, the anti-addiction compliance system applies to all online games excluding mobile games temporarily.

On October 25, 2019, the NPPA issued the Notice on Preventing Minors from Addiction to 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 took effect from November 1, 2019. The Notice stipulates several requirements on the online game operation as follows: (i) the real-name registration system shall be implemented. All online game users shall register their game accounts with valid identity information. Online-game companies shall require existing users to complete real-name registration and shall not provide any game services for those users who have not completed real-name registration; (ii) the time slot and duration for playing online games by minors shall be strictly controlled. Game services shall not be provided to minors between 10:00 p.m. to 8:00 a.m. the next day and shall not exceed 3 hours per day during statutory holidays and 1.5 hours per day during other times; (iii) the provision of paid services to minors shall be regulated. The online game enterprises shall not provide paid services to minor users under 8 years old. For minor users between 8 and 16 years old, the top up amount shall not exceed RMB50 per time and the accumulative amount shall not exceed RMB200 per month; for those over 16 years old but below 18 years old, the top up amount shall not exceed RMB100 per time and the accumulative amount shall not exceed RMB400 per month; (iv) the regulation of the industry shall be enhanced. The requirements above shall be requisite for launching, publishing and operating online games. For online game companies which fail to fulfill the requirements of the Notice, local publishing administrative departments shall order them to take rectification measures within a

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limited period of time; in serious cases, it shall be dealt with according to laws and regulations or even the relevant licenses of such online game companies shall be revoked; (v) the development and implementation of appropriate-age reminding system shall be explored. The game companies shall explore ways to remind their users of specific online games designed for users of different ages and display such reminders at prominent places on pages for download, registration and login. Online game companies shall analyze the cause of minor addiction, and alter the content and features of games or game rules resulting in such addiction.

On August 30, 2021, the NPPA issued the Notice on Further Strengthening Regulation to Effectively Prevent Online Gaming Addiction among Minors (《關於進一步嚴格管理切實防止未成年人沉迷網絡遊戲的通知》), which took effect on September 1, 2021. This Notice further strengthens the measures on providing online game services to minors in response to the growing concern over gaming addiction among minors. It sets out a series of requirements and restrictions regarding the operation of online games, including (i) all online game companies (including platforms providing online game services) can only provide one hour of online game services to minors between 20:00 to 21:00 on Fridays, weekends and statutory holidays, and are not allowed to provide online game services in any form to minors in any other time, (ii) the requirements for real-name registration and login of online game user accounts shall be strictly implemented, (iii) publishing authorities at all levels shall strengthen their supervision and inspection of online game companies in terms of, among other situations, the implementation of the time frame and duration of online game services, the real-name registration and login, and paid services compliance, and (iv) families, schools and other social parties shall be actively guided to create a good environment conducive to the healthy growth of minors, to perform the guardianship duty to minors, to strictly enforce on minors the rules on the time frame and duration of playing online games, etc.

On October 20, 2021, the Ministry of Education of the People’s Republic of China, along with several other government authorities, issued the Notice on Further Strengthening the Management of Preventing Primary and Middle School Students from Addiction to Online Games (《關於進一步加強預防中小學生沉迷網路遊戲管理工作的通知》), which requires the relevant government authorities to: (1) ensure the NPPA’s local counterparts to properly guide the online game operators to develop healthy and diversified games; (2) thoroughly implement the laws and regulations related to the anti-addiction, such as the Law on the Protection of Minors and the Notice on Further Strengthening Regulation to Effectively Prevent Online Gaming Addiction among Minors (《關於進一步嚴格管理切實防止未成年人沉迷網絡遊戲的通知》); (3) ensure local educational authorities, schools, and parents to provide primary and middle school students with the proper guidance to prevent addiction; and (4) ensure the local counterparts of NPPA, CAC, MIIT, MPS and SAMR to strengthen the regulation of online game operators.

The Law on the Protection of Minors (《未成年人保護法》), promulgated by Standing Committee of the National People’s Congress on September 4, 1991, last amended on October 17, 2020 and became effective on June 1, 2021, provides the regulatory framework for protection of minors. Its last amendment provides that, amongst others, (i) departments of press and publication, education, health, culture and tourism, and cyberspace administration authorities shall supervise providers of network products and services to fulfill their obligations of preventing minors from becoming addicted to the network; (ii) providers of online games shall set up corresponding time management, authority management, consumption management and other functions for minors who use their services; (iii) online games may not be operated before being approved according to the law. Providers of online game services shall require minors to register and log into online games with their real identity information. Providers of online game services may not provide online game services for minors from 22:00 of each day to 8:00 of the next day. As of the Latest Practicable Date, no implementation rule of this amendment has been issued to enforce it.

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On March 14, 2022, the CAC published the revised Regulations on the Online Protection of Minors (Draft for Comments) (《未成年人網絡保護條例(徵求意見稿)》) (the “**Minor Protection Draft**”), which was open for public consultations. The Minor Protection Draft sets out in details the responsibilities of the online platforms, online product or service providers, personal information processors, and manufacturers and sellers of smart terminal products.

Specifically, in addition to the requirements promulgated in the previous regulations such as the anti-addiction system and real-name authentication procedures, the Minor Protection Draft further stipulates that the online product or service providers shall comply with the following requirements: (1) establish a comprehensive anti-addiction policy, and promptly amend content, function or rules that may lead to minors’ addiction; (2) prevent and discourage unhealthy values such as with excessive focus on viewership; (3) continue to enforce the spending limits; (4) periodically release updates on anti-addiction compliance; (5) implement game rules that are designed to prevent minors from addicting to online games; (6) implement appropriate-age reminding system, categorize games, clarify the applicable age group for the game, and label conspicuous warnings on the downloading page, user registration and login page.

If an entity fails to comply with the abovementioned requirements, the competent authorities can order it to make corrections, issue a warning, and confiscate its illegal gains, as well as impose monetary fines between RMB100,000 to RMB1,000,000 if the illegal gains are below RMB1,000,000 or if there are no illegal gains, and monetary fines between one and 10 times the illegal gains if the illegal gains are over RMB1,000,000. If it refuses to make corrections or the circumstances are serious, it may be ordered to suspend its relevant business, cease its business for rectification, close its website, or revoke its business license or its relevant permits. The responsible managerial personnel and other directly liable persons of the entity could be imposed monetary fines between RMB10,000 to RMB100,000. If an entity’s business license or relevant permits are revoked, such revoked licenses and permits cannot be reapplied within five years and the responsible managerial personnel and other directly liable persons could be banned from engaging in the business of similar online products or services for five years. However, there remain uncertainties regarding the further interpretation and implementation of the Minor Protection Draft. As of the Latest Practicable Date, the Minor Protection Draft has not been formally adopted.

Control of Myopia

On August 30, 2018, eight PRC regulatory authorities at national government level released the Implementation Program on Comprehensive Prevention and Control of Adolescent Myopia (《綜合防控兒童青少年近視實施方案》) (the “**Implementation Program**”). As a part of the plan to prevent myopia among children, the Implementation Program plans to regulate the number of new online games and restrict the amount of time that children spend on playing electronic devices. As of the Latest Practicable Date, no implementation rule has been issued to enforce the Implementation Program.

REGULATIONS RELATING TO INFORMATION SECURITY AND CENSORSHIP

Internet content in China is regulated and restricted from a state security standpoint. The Standing Committee of the National People’s Congress (the “**NPC Standing Committee**”) enacted the Decision on Internet Security Protection (《關於維護互聯網安全的決定》) on December 28, 2000, which was amended on August 27, 2009, that may subject persons to criminal liabilities in China for any attempt to: (i) gain improper entry to a computer or system of strategic importance; (ii) disseminate politically disruptive information; (iii) leak state secrets; (iv) spread false commercial information or (v) infringe upon intellectual property rights. In 1997, the MPS issued the

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Administration Measures on the Security Protection of Computer Information Network with International Connections (《計算機信息網絡國際聯網安全保護管理辦法》), which were amended by the State Council on January 8, 2011 and prohibit using the Internet in ways which, among others, result in a leakage of state secrets or a spread of socially destabilizing content. The MPS has supervision and inspection powers in this regard, and relevant local security bureaus may also have jurisdiction.

On November 7, 2016, the NPC Standing Committee promulgated the Cyber Security Law of the PRC (《中華人民共和國網絡安全法》), which became effective on June 1, 2017, pursuant to which, network operators shall comply with laws and regulations and fulfill their obligations to safeguard security of the network when conducting business and providing services. Those who provide services through networks shall take technical measures and other necessary measures pursuant to laws, regulations and compulsory national requirements to safeguard the safe and stable operation of the networks, respond to network security incidents effectively, prevent illegal and criminal activities, and maintain the integrity, confidentiality and usability of network data, and the network operator shall not collect the personal information irrelevant to the services it provides or collect or use the personal information in violation of the provisions of laws or agreements between both parties, and network operators of key information infrastructure shall store within the territory of the PRC all the personal information and important data collected and produced within the territory of PRC. Their purchase of network products and services that may affect national security shall be subject to national cyber security review.

On April 13, 2020, the CAC and 11 other government authorities jointly promulgated the Measures for Cybersecurity Review (《網絡安全審查辦法》) (the “**Measures for Cybersecurity Review 2020**”), effective from June 1, 2020, which provides that critical information infrastructure operators purchasing network products and services, which affects or may affect national security, shall apply for cybersecurity review to the cyberspace administrations in accordance with the provisions thereunder. On December 28, 2021, the CAC and 12 other government authorities published a new version of the Measures for Cybersecurity Review (the “**Measures for Cybersecurity Review 2022**”), which came into effect on February 15, 2022. The Measures for Cybersecurity Review 2022 provides that the relevant operators shall apply with the Cybersecurity Review Office of CAC for a cybersecurity review under the following circumstances: (i) internet platform operators holding over one million individuals’ personal information aiming for foreign listing, (ii) operators of “critical information infrastructure” that intend to purchase internet products and services that will or may affect national security, or (iii) internet platform operators carrying out data processing that affect or may affect national security.

On March 13, 2019, the Office of the Central Cyberspace Affairs Commission (the “OCCAC”) and the SAMR jointly issued the Notice on App Security Certification (《關於開展App 安全認證工作的公告》) and the Implementation Rules on Security Certification of Mobile Internet Application (《移動互聯網應用程序(App)安全認證實施規則》), which encourages mobile application operators to voluntarily obtain app security certification, and search engines and app stores are encouraged to recommend certified applications to users. On June 22, 2007, The Administrative Regulations for the Classified Protection of Information Security (《信息安全等級保護管理辦法》) was promulgated, according to which websites should determine the protection classification of their information systems pursuant to a classification guideline and file their classification with the Ministry of Public Security or its bureaus at or above the municipal level with subordinate districts.

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REGULATIONS RELATING TO PRIVACY PROTECTION

On December 13, 2005, the MPS issued the Provisions on the Technical Measures for the Protection of the Security of the Internet (《互聯網安全保護技術措施規定》) (the “**Internet Protection Measures**”) which took effect on March 1, 2006. The Internet Protection Measures requires Internet service providers to take proper measures including anti-virus, data back-up and other related measures, and to keep records of certain information about their users (including user registration information, log-in and log-out time, IP address, content and time of posts by users) for at least 60 days, and detect illegal information, stop transmission of such information, and keep relevant records. Internet services providers are prohibited from unauthorized disclosure of users’ information to any third parties unless such disclosure is required by the laws and regulations. They are further required to establish management systems and take technological measures to safeguard the freedom and secrecy of the users’ correspondences.

In December 2012, the NPC Standing Committee promulgated the Decision on Strengthening Information Protection on Networks (《關於加強網絡信息保護的決定》) to enhance the legal protection of information security and privacy on the Internet. In July 2013, the MIIT promulgated the Regulations on Protection of Personal Information of Telecommunication and Internet Users (《電信和互聯網用戶個人信息保護規定》), which took effect on September 1, 2013, to regulate the collection and use of users’ personal information in the provision of telecommunication services and Internet information services in China and the personal information includes a user’s name, birth date, identification card number, address, phone number, account name, password and other information that can be used for identifying a user. Telecommunication business operators and Internet service providers are required to constitute their own rules for the collection and use of users’ information and they cannot collect or use of user’s information without users’ consent. Telecommunication business operators and Internet service providers must specify the purposes, manners and scopes of information collection and uses, obtain consent of the relevant citizens, and keep the collected personal information confidential. Telecommunication business operators and Internet service providers are prohibited from disclosing, tampering with, damaging, selling or illegally providing others with, collected personal information. Telecommunication business operators and Internet service providers are required to take technical and other measures to prevent the collected personal information from any unauthorized disclosure, damage or loss.

On December 29, 2011, the MIIT promulgated the Several Provisions on Regulation of the Order of Internet Information Service Market (《規範互聯網信息服務市場秩序若干規定》), which became effective on March 15, 2012. The Provisions stipulates that without the consent of users, Internet information service providers shall not collect information relevant to the users that can lead to the recognition of the identity of the users independently or in combination with other information (hereinafter referred to as “**personal information of users**”), nor shall they provide personal information of users to others, unless otherwise provided by laws and administrative regulations. The Provisions also requires that Internet information service providers shall properly keep the personal information of users; if the preserved personal information of users is divulged or may possibly be divulged, Internet information service providers shall immediately take remedial measures; where such incident causes or may cause serious consequences, they shall immediately report the same to the telecommunications administration authorities that grant them with the Internet information service license or filing and cooperate in the investigation and disposal carried out by relevant departments. Failure to comply with such requirements may result in a fine between RMB10,000 and RMB30,000 and an announcement to the public.

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On October 31, 2019, the MITT issued the Notice on the Special Rectification of Apps Infringing Users’ Rights and Interests (《工業和信息化部關於開展APP侵害用戶權益專項整治工作的通知》), pursuant to which app providers were required to promptly rectify issues the MITT designated as infringing app users’ rights such as collecting personal information in violation of PRC regulations and setting obstacles for user account deactivation.

The CAC, the MIIT, the MPS and the SAMR jointly promulgated the Provisions on the Scope of Essential Personal Information for Common Types of Mobile Internet Applications (《常見類型移動互聯網應用程序必要個人信息範圍規定》) with effective date from May 1, 2021, which clarifies the scope of Essential Personal Information for Common Types of Applications. In relation to online game applications, the basic function and service is “provision of online game products and services”, for which the necessary personal information is mobile phone number of registered users. In addition, internet application operators shall not refuse users from using the basic functions of the internet application on the ground that users do not agree to the collection of unnecessary personal information. On August 29, 2015, the Ninth Amendment to the Criminal Law of the PRC (《中華人民共和國刑法修正案(九)》) issued by the SCNPC, which became effective on November 1, 2015, provides that any internet service provider that fails to comply with the obligations related to internet information security administration as required by the applicable laws and refuses to rectify upon order shall be subject to criminal penalty for (i) any large-scale dissemination of illegal information; (ii) any serious consequences due to the leakage of user information; (iii) any serious loss of criminal evidence; or (iv) other severe circumstances. Furthermore, any individual or entity that (i) sells or distributes personal information in a manner which violates relevant regulations, or (ii) steals or illegally obtains any personal information is subject to criminal penalty in serious circumstances. On May 8, 2017, the Supreme People’s Court and the Supreme People’s Procuratorate released the 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》) (the “**Personal Information Interpretations**”), effective from June 1, 2017. The Personal Information Interpretations clarify several concepts regarding the criminal offence of “infringement of citizens’ personal information” stipulated by Article 253A of the Criminal Law of the PRC (《中華人民共和國刑法》), including “citizen’s personal information”, “provision”, and “unlawful acquisition”. Also, the Personal Information Interpretations specify the standard for determining “serious circumstances” and “particularly serious circumstances” regarding the crime. On January 23, 2019, the OCCAC, the MIIT and the MPS, and the SAMR jointly issued the Notice on Special Governance of Illegal Collection and Use of Personal Information via Apps (《關於開展App違法違規收集使用個人信息專項治理的公告》), which restates the requirement of legal collection and use of personal information, encourages app operators to conduct security certifications and encourages search engines and app stores to clearly mark and recommend those certified apps. On August 22, 2019, the CAC issued the Regulation on Cyber Protection of Children’s Personal Information (《兒童個人信息網絡保護規定》), effective on October 1, 2019. No organization or individual is allowed to produce, release or disseminate information that infringes upon the personal information security of children under 14. Network operators are required to establish specific policies and user agreements to protect children’s personal information, and to appoint special personnel in charge of protecting children’s personal information. Network operators who collect, use, transfer or disclose personal information of children are required to, in a noticeable and clear way, notify and obtain consent from children’s guardians. On November 28, 2019, the CAC, MIIT, the MPS and SAMR jointly issued the Measures to Identify Illegal Collection and Usage of Personal Information by Apps (《App違法違規收集使用個人信息行為認定方法》), which lists six types of illegal collection and usage of personal information, including “failure to publish rules on the collection and usage of personal information”, “failure to

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expressly state the purpose, manner and scope of the collection and usage of personal information”, “collecting and using personal information without obtaining consents from users”, “collecting personal information irrelevant to the services provided”, “providing personal information to other parties without obtaining consent” and “failure to provide the function of deleting or correcting personal information as required by law or failure to publish the methods for complaints and reports or other information.” On May 28, 2020, the National People’s Congress of the PRC approved the PRC Civil Code (《中華人民共和國民法典》), which took effect on January 1, 2021. Pursuant to the PRC Civil Code, the collection, storage, use, process, transmission, provision and disclosure of personal information shall follow the principles of legitimacy, properness and necessity. On August 20, 2021, the Standing Committee of the National People’s Congress issued the PRC Personal Information Protection Law (《中華人民共和國個人信息保護法》) (the “**Personal Information Protection Law**”), which became effective on November 1, 2021, and sets forth detailed rules on handling personal information and legal responsibilities, including but not limited to the scope of personal information and the ways of processing personal information, the establishment of rules for processing personal information, and the individual’s rights and the processor’s obligations in the processing of personal information. The Personal Information Protection Law also strengthens the punishment for those who illegally process personal information. According to the Law of the PRC on the Protection of Minors (2020 Revision) (《中華人民共和國未成年人保護法(2020修訂)》), which became effective on June 1, 2021, information processors must follow the principles of legality, legitimacy and necessity when processing personal information of minors via internet, and must obtain consent from minors’ parents or other guardians when processing personal information of minors under age of 14. In addition, internet service providers must promptly alert upon the discovery of publishing private information by minors via the internet and take necessary protective measures. On June 10, 2021, the Standing Committee of the National People’s Congress issued the Data Security Law of the People’s Republic of China (《中華人民共和國數據安全法》) (the “**Data Security Law**”), which took effect on September 1, 2021. The Data Security Law clarifies the scope of data to cover a wide range of information records generated from all aspects of production, operation and management of government affairs and enterprises in the process of the gradual transformation of digitalization, and requires that data collection shall be conducted in a legitimate and proper manner, and theft or illegal collection of data is not permitted. Data processors shall establish and improve the whole-process data security management rules, organize and implement data security trainings as well as take appropriate technical measures and other necessary measures to protect data security. In addition, data processing activities shall be conducted on the basis of the graded protection system for cybersecurity. Monitoring of the data processing activities shall be strengthened, and remedial measures shall be taken immediately in case of discovery of risks regarding data security related defects or bugs. In case of data security incidents, responding measures shall be taken immediately, and disclosure to users and report to the competent authorities shall be made in a timely manner. In addition, pursuant to the Standard of Information Security Technology — Personal Information Security Specification (2020 edition) (《信息安全技術個人信息安全規範》(2020年版)), which took effect in October 2020, any entity or person who has the authority or right to determine the purposes for and methods of using or processing personal information are seen as a personal data controller. Such personal data controller is required to collect information in accordance with the applicable laws, and prior to collecting such data, the information provider’s consent is required. On July 7, 2022, the CAC has promulgated the Measures for the Security Assessment of Cross-border Data Transfer (《數據出境安全評估辦法》), which takes effect on September 1, 2022, and requires that any data processor providing important data collected and generated during operations within the territory of the PRC or personal information that should be subject to security assessment according to the relevant law to an overseas recipient shall conduct security assessment. The Measures for the Security Assessment of Cross-border Data Transfer provides four circumstances, under any of which data processors shall, through the local cyberspace

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administration at the provincial level, apply to the national cyberspace administration for security assessment of cross-border data transfer. These circumstances include: (i) where the important data are transferred to an overseas recipient; (ii) where the personal information is transferred to an overseas recipient by an operator of critical information infrastructure or a data processor that has processed personal information of more than one million people; (iii) where a data processor provides personal information to an overseas recipient if such data processor has already provided overseas the personal information of 100,000 people or sensitive personal information of 10,000 people since January 1 of the preceding year; or (iv) other circumstances under which security assessment of outbound data transfer is required as prescribed by the national cyberspace administration.

On November 14, 2021, the CAC published the Administrative Regulations on Internet Data Security (Draft for Comments) (《網絡數據安全管理條例(徵求意見稿)》) (the “**Draft Regulations on Internet Data Security**”) for public comments. The Draft Regulations on Internet Data Security covers a wide range of internet data security issues, including the supervision and management of data security in the PRC, and applies to situations using networks to carry out data processing activities. The Draft Regulations on Internet Data Security sets out general guidelines covering subjects including protection of personal information, security of important data, security management of cross-border data transmission, obligations of internet platform operators, supervision and management, and legal liabilities of internet data security. In particular, the Draft Regulations on Internet Data Security requires a data processor to apply to the CAC for cybersecurity review if its listing in Hong Kong affects or may affect national security. The Draft Regulations on Internet Data Security was released for public comment only, and the provisions and the anticipated adoption or effective date may be subject to change with substantial uncertainty.

On September 30, 2021, and again on February 10, 2022, the MIIT issued the Measures for Data Security Administration in the Industry and Information Technology Field (Trial Implementation) (Draft for Comments) (《工業和信息化領域數據安全管理辦法(試行)(徵求意見稿)》) for public comments. In accordance with the draft measures, the industrial and telecommunication data processors shall classify data firstly based on the data’s category and then based on its security level on a regular basis, and also classify and identify data based on the industry requirements, business needs, data sources and purposes and other factors, and to make a data classification list. In addition, the industrial and telecommunication data processors shall establish and improve a sound data classification management system, take measures to protect data based on the levels, carry out key protection of critical data, implement stricter management and protection of core data on the basis of critical data protection, and implement the protection with the highest level of requirement if different levels of data are processed at the same time. The draft measures also impose certain obligations on industrial and telecommunication data processors in relation to, among others, implementation of data security work system, administration of key management, data collection, data storage, data usage, data transmission, provision of data, disclosure of data, data destruction, safety audit and emergency plans, etc. As of the Latest Practicable Date, the draft measures have not been formally adopted.

REGULATION RELATING TO FOREIGN EXCHANGE

Under the Foreign Currency Administration Rules of the PRC (《中華人民共和國外匯管理條例》) which was promulgated on January 29, 1996 and last amended on August 5, 2008 and various regulations issued by the SAFE and other relevant PRC government authorities, RMB is convertible into other currencies for the purpose of current account items, such as trade related receipts and payments, payment of interest and dividends. The conversion of RMB into other currencies and remittance of the converted foreign currency outside the PRC for the purpose of capital account

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items, such as direct equity investments and loans, requires the prior approval from the SAFE or its local office. Foreign exchange income under the current accounts may be retained or sold to a financial institution engaging in settlement and sale business of foreign exchange pursuant to relevant rules and regulations of the PRC. For foreign exchange income under the capital accounts, approval from the relevant foreign exchange administrative authority is required for its retention or sale to a financial institution engaging in settlement and sale business of foreign exchange, except where such approval is not required under the relevant rules and regulations of the PRC.

Regulations on Foreign Exchange Registration of Overseas Investment by PRC Residents

On July 4, 2014, SAFE issued the Circular concerning Foreign Exchange Administration of Overseas Investment and Financing and Round-trip Investment Conducted by Domestic Residents through Overseas Special Purpose Vehicles (《關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) (the “**Circular 37**”). Under the Circular 37, domestic residents in the PRC are required to register with local branches of SAFE in connection with their direct establishment or indirect control of an offshore entity, for the purpose of overseas investment and financing, with such domestic residents’ legally owned assets or equity interests in domestic enterprises or offshore assets or interests, referred to in Circular 37 as a “special purpose vehicle”. Circular 37 further requires that in the event the change of basic information of the registered offshore special purpose vehicle such as the individual shareholder, name, operation term, etc., or if there is a capital increase, decrease, equity transfer or swap, merge, spin-off or other amendment of the material items, the domestic resident shall complete the change of foreign exchange registration formality for offshore investment. At the same time, the SAFE has issued the Operation Guidance for the Issues concerning Foreign Exchange Administration over Round-trip Investment (《返程投資外匯管理所涉業務操作指引》) (the “**Operating Guidance**”) with respect to the procedures for SAFE registration under the Circular 37, which became effective on July 4, 2014 as an attachment to Circular 37. According to the Operating Guidance, a domestic individual resident is only required to register for the first level of special purpose vehicle he/she directly owned or controlled.

On February 13, 2015, SAFE promulgated the Circular of SAFE 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》) effective from June 1, 2015 and was amended on December 30, 2019, which cancels the administrative approvals of foreign exchange registration of direct domestic investment and direct overseas investment. In addition, it simplifies the procedure of registration of foreign exchange and investors shall register with banks to have the registration of foreign exchange under the condition of direct domestic investment and direct overseas investment. However, remedial registration applications made by PRC residents that previously failed to comply with the Circular 37 continue to fall under the jurisdiction of the relevant local branch of SAFE. In the event that a PRC shareholder holding interests in a special purpose vehicle fails to fulfill the required SAFE registration, the special purpose vehicle may be prohibited from distributing profits to the PRC shareholder and from carrying out subsequent cross-border foreign exchange activities. Moreover, failure to comply with the various SAFE registration requirements described above could result in liability under PRC law for evasion of foreign exchange controls.

On March 30, 2015, the SAFE promulgated the Circular on Reforming of the Management Method of the Settlement of Foreign Currency 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 19**”), which came into effect from June 1, 2015. According to the SAFE Circular 19, the foreign exchange capital of foreign-invested enterprises shall be subject to the Discretionary Foreign Exchange Settlement (the “**Discretionary Foreign Exchange Settlement**”). The Discretionary Foreign Exchange Settlement refers

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to the foreign exchange capital in the capital account of a foreign-invested enterprise for which the rights and interests of monetary contribution has been confirmed by the local branch of the SAFE (or the book-entry registration of monetary contribution by the banks) can be settled at the banks based on the actual operational needs of the foreign-invested enterprise. Furthermore, the SAFE Circular 19 stipulates that the use of capital by foreign-invested enterprises shall follow the principles of authenticity and self-use within the business scope of enterprises.

On June 9, 2016, the SAFE promulgated the Circular on Reforming and Regulating Policies on the Control over Foreign Exchange Settlement of Capital Accounts (《國家外匯管理局關於改革和規範資本項目結匯管理政策的通知》) (the “SAFE Circular 16”), which came into effect on the same day. Pursuant to the SAFE Circular 16, enterprises registered in the PRC may also convert their foreign debts from foreign currency to Renminbi on self-discretionary basis. The SAFE Circular 16 provides an integrated standard for conversion of foreign exchange under capital account items (including but not limited to foreign currency capital and foreign debts) on self-discretionary basis which applies to all enterprises registered in the PRC. The SAFE Circular 16 reiterates the principle that Renminbi converted from foreign currency-denominated capital of a company may not be directly or indirectly used for purposes beyond its business scope or prohibited by PRC laws.

On October 23, 2019, SAFE issued the Circular on Further Promoting the Facilitation of Cross-border Trade and Investment (《國家外匯管理局關於進一步促進跨境貿易投資便利化的通知》) (the “SAFE Circular 28”), which came into effect on the same day. The SAFE Circular 28 allows all foreign-invested enterprises to make equity investment in the PRC using their capital, subject to compliance with the then effective Negative List.

REGULATIONS RELATED TO TAX

Enterprise Income Tax

On March 16, 2007, the National People’s Congress promulgated the Law of the PRC on Enterprise Income Tax (《中華人民共和國企業所得稅法》) which was amended on February 24, 2017 and December 29, 2018 respectively. On December 6, 2007, the State Council enacted the Implementing Regulations of the Law of the PRC on Enterprise Income Tax (《中華人民共和國企業所得稅法實施條例》) which came into effect on January 1, 2008 and was amended on April 23, 2019 (collectively, the “EIT Law”). According to the EIT Law, taxpayers consist of resident enterprises and non-resident enterprises. Resident enterprises are defined as enterprises that are established in China in accordance with PRC laws, or that are established in accordance with the laws of foreign countries but whose actual or de facto control is administered from within the PRC. Non-resident enterprises are defined as enterprises that are set up in accordance with the laws of foreign countries and whose actual administration is conducted outside the PRC, but have established institutions or premises in the PRC, or have no such established institutions or premises but have income generated from inside the PRC. Under the EIT Law and relevant implementing regulations, a uniform corporate income tax rate of 25% is usually applicable. However, if non-resident enterprises have not formed permanent establishments or premises in the PRC, or if they have formed permanent establishment institutions or premises in the PRC but there is no actual relationship between the relevant income derived in the PRC and the established institutions or premises set up by them, the enterprise income tax is, in that case, set at the rate of 10% for their income sourced from inside the PRC.

Circular on Issues Concerning the Identification of Chinese-Controlled Overseas Registered Enterprises as Resident Enterprises in Accordance With the Actual Standards of Organizational Management (《國家稅務總局關於境外註冊中資控股企業依據實際管理機構標準認定為居民企業有關

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問題的通知》) promulgated by SAT on April 22, 2009 and last amended on December 29, 2017 and Announcement on Issues concerning the Determination of Resident Enterprises Based on the Standards of Actual Management Institutions (《關於依據實際管理機構標準實施居民企業認定有關問題的公告》) promulgated by the SAT on January 29, 2014 sets out the standards and procedures for determining whether the “*de facto* management body” of an enterprise registered outside of the PRC and controlled by PRC enterprises or PRC enterprise groups is located within the PRC.

The EIT Law and the implementation rules provide 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 the PRC or (b) have an establishment or place of business in the PRC, 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 the PRC. Such income tax on the dividends may be reduced pursuant to a tax treaty between China and other jurisdictions. Pursuant to the Agreement between the Mainland of the PRC and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Incomes (《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 PRC laws, if a Hong Kong resident enterprise is determined by the competent PRC tax authority to have satisfied the relevant conditions and requirements under such Double Tax Avoidance Arrangement and other applicable laws, the 10% withholding tax on the dividends the Hong Kong resident enterprise receives from a PRC resident enterprise may be reduced to 5% if the resident enterprise holds at least 25% of the equity interest in the PRC resident enterprise. However, based on the Circular of the SAT on Relevant Issues concerning the Implementation of Dividend Clauses 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 February 20, 2009, if the relevant PRC tax authorities determine, in their discretion, that a company benefits from such reduced income tax rate due to a structure or arrangement that is primarily tax-driven, such PRC tax authorities may adjust the preferential tax treatment.

According to the EIT Law, the EIT tax rate of a high and new technology enterprise is 15%. Pursuant to the Administrative Measures for Accreditation of High-tech Enterprises (《高新技術企業認定管理辦法》), effected on January 1, 2008 and amended on January 29, 2016, the certificate of a high and new technology enterprise is valid for three years. An enterprise shall, after being accredited as a high-tech enterprise, fill out and submit the statements on annual conditions concerning the intellectual property rights, scientific and technical personnel, expenses on research and development and operating income for the previous year on the “website for the administration of accreditation of high-tech enterprises”. Besides, when any high-tech enterprise has changed its name or has undergone any major change concerning the accreditation conditions (such as a division, merger, reorganization or change of business), it shall report the change to the accreditation institution within three months upon occurrence of the change. If the high-tech enterprise is qualified upon review by the accreditation institution, it continues to have the qualification as a high-tech enterprise, and in case of change in the name, a new accreditation certificate will be issued with the number and term of validity remaining the same as the previous certificate; otherwise, the qualification as a high-tech enterprise shall be canceled as of the year of change in the name or any other condition.

Value-added Tax and Business Tax

According to the Interim Value-Added Tax Regulations of the PRC (《中華人民共和國增值稅暫行條例》) (the “**VAT Regulations**”), which was promulgated by the State Council on December 13, 1993 and was amended in November 2008, February 2016 and November 2017, and the

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Implementing Rules for the Interim Regulations of the PRC on Value-added Tax (《中華人民共和國增值稅暫行條例實施細則》), which was first promulgated by the MOF on December 25, 1993 and was amended by the MOF and the SAT on December 15, 2008 and subsequently amended on October 28, 2011, all taxpayers selling goods, providing processing, repairing or replacement services or importing goods within the PRC shall pay value-added tax.

Pursuant to the Interim Regulations of the PRC on Business Tax (《中華人民共和國營業稅暫行條例》) (the “**Business Tax Regulations**”), which became effective on January 1, 1994 and were subsequently amended on November 10, 2008 and abolished on November 19, 2017, and its implementation rules, all institutions and individuals providing taxable services, transferring intangible assets or selling real estate within the PRC shall pay business tax. The scope of services which constitute taxable services and the rates of business tax are prescribed in the Taxable Items and Tax Rates Form for Business Tax (《營業稅稅目稅率表》) attached to the regulation. On November 16, 2011, the MOF and the SAT have implemented the Pilot Proposals for the Collection of Value-Added Tax in Lieu of Business Tax (《營業稅改徵增值稅試點方案》), which imposes VAT in lieu of business tax for certain “modern service industries” in certain regions and eventually expanded to nation-wide application in 2013. According to the implementation circulars released by the MOF and the SAT on the VAT Pilot Program, the “modern service industries” include research, development and technology services, information technology services, cultural innovation services, logistics support, and lease of corporeal properties, attestation and consulting services. According to the Notice of the MOF and the SAT on Implementing the Pilot Program of Replacing Business Tax with Value-Added Tax in an All-round Manner (《財政部、國家稅務總局關於全面推開營業稅改徵增值稅試點的通知》) which became effective on May 1, 2016, entities and individuals engaging in the sale of services, intangible assets or fixed assets within the territory of the PRC are required to pay value-added tax instead of business tax. The State Council amended the VAT Regulations and abolished the Business Tax Regulations concurrently on November 19, 2017.

REGULATIONS RELATING TO DIVIDEND DISTRIBUTION

The principal regulations governing distribution of dividends of foreign holding companies include the Company Law of the PRC (《中華人民共和國公司法》) and other relevant laws and regulations, foreign investment enterprises in the PRC may pay dividends only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, wholly-foreign-owned enterprises in the PRC, like WFOE, are required to allocate at least 10% of their respective accumulated profits after tax each year, if any, to fund certain reserve funds unless these accumulated reserves have reached 50% of the registered capital of the enterprises. These reserves are not distributable as cash dividends.

REGULATIONS RELATING TO INTELLECTUAL PROPERTY

The Copyright Law

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.

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The Copyright Law of the PRC (Revised in 2020) (《中華人民共和國著作權法》(2020年修訂)) (the “**Copyright Law**”) provides that Chinese citizens, legal persons, or other organizations shall, whether published or not, enjoy copyright in their works, which include, among others, works of literature, art, natural science, social science, engineering technology and computer software. The purpose of the Copyright Law aims to encourage the creation and dissemination of works which is beneficial for the construction of socialist spiritual civilization and material civilization and promote the development and prosperity of Chinese culture.

In order to further implement the Copyright Law of the PRC, the Regulations of the PRC for the Implementation of Copyright Law (《中華人民共和國著作權法實施條例》) was promulgated by the State Council on September 15, 2002 and last amended on January 30, 2013.

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

- (i) any Internet information service provider that provides automatic Internet access service upon instructions from its users or provides automatic transmission service for works, performances and audio/visual products provided by its users is not required to assume indemnification liabilities if (a) it has not chosen or altered the transmitted works, performance and audio/visual products and (b) it provides such works, performances and audio/visual products to the designated users and prevents any person other than such designated users from obtaining access;
- (ii) any Internet information service provider that, for the sake of improving network transmission efficiency, automatically stores and provides to its own users the relevant works, performances and audio/visual products obtained from any other Internet information service providers, is not required to assume the indemnification liabilities if (a) it has not altered any of the works, performances or audio/visual products that are automatically stored; (b) it has not affected such original Internet information service provider in holding the information about where the users obtain the relevant works, performances and audio/visual products; and (c) when the original Internet information service provider revises, deletes or shields the works, performances and audio/visual products, it will automatically revise, delete or shield the same;
- (iii) any Internet information service provider that provides its users with information memory space for such users to provide the works, performances and audio/visual products to the general public via an informational network is not required to assume the indemnification liabilities if (a) it clearly indicates that the information memory space is provided to the users and publicizes its own name, contact person and web address; (b) it has not altered the works, performances and audio/visual products that are provided by the users; (c) it is not aware of or has no justified reason to know that the works, performances and audio/visual products provided by the users infringe upon the copyrights of others; (d) it has not directly derived any economic benefit from the providing of the works,

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performances and audio/visual products by its users; and (e) after receiving a notice from the copyright holder, it promptly deletes the allegedly infringing works, performances and audio/visual products pursuant to the regulation;

- (iv) an Internet information service provider that provides its users with search engine or link services should not be required to assume the indemnification liabilities if, after receiving a notice from the copyright holder, it disconnects the link to the allegedly infringing works, performances and audio/visual products pursuant to the regulation, unless it is aware of or should reasonably have known the infringement.

Measures on Administrative Protection of Internet Copyright (《互聯網著作權行政保護辦法》), that were promulgated by the MII and National Copyright Administration (the “NCA”) and took effect on May 30, 2005, provides that an Internet information service provider shall take measures to remove the relevant contents, record relevant information after receiving the notice from the copyright owner that some content communicated through Internet infringes upon his/its copyright and preserve the copyright owner’s notice for 6 months. Where an Internet information service provider clearly knows an Internet content provider’s tortuous act of infringing upon another’s copyright through Internet, or fails to take measures to remove relevant contents after receipt of the copyright owner’s notice although it does not know it clearly, and meanwhile damages public benefits, the infringer shall be ordered to stop the tortious act, and may be imposed of confiscation of the illegal proceeds and a fine of not more than 3 times the illegal business amount; if the illegal business amount is difficult to be calculated, a fine of not more than RMB100,000 may be imposed.

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

Provisions of the Supreme People’s Court on Several Issues Concerning the Application of Law to Trial of Civil Dispute Cases of Infringement of Information Network Transmission Right (《最高人民法院關於審理侵害信息網絡傳播權民事糾紛案件適用法律若干問題的規定》) provides that web users or web service providers who create works, performances or audio-video products, for which others have the right of dissemination through information networks or are available on any information network without authorization shall be deemed to have infringed upon the right of dissemination through information networks.

The Trademark Law

Trademarks are protected by the Trademark Law of the PRC (《中華人民共和國商標法》) which was promulgated on August 23, 1982 and subsequently amended on February 22, 1993, October 27, 2001, August 30, 2013 and April 23, 2019, respectively as well as the Implementing Regulations of the Trademark Law of the PRC (《中華人民共和國商標法實施條例》) adopted by the State Council on August 3, 2002 and subsequently amended on April 29, 2014. In China, registered trademarks include commodity trademarks, service trademarks, collective marks and certification marks.

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The Trademark Office of National Intellectual Property Administration 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 license its registered trademark to another party by entering into a trademark license contract. Trademark license 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 with trademarks, the PRC 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.

Domain Names

Internet domain name registration and related matters are primarily regulated by the Administrative Measures for the Internet Domain Names of the PRC (《中國互聯網絡域名管理辦法》), issued by MII on August 1, 2002 and amended on November 5, 2004 which was replaced by the Administrative Measures for Internet Domain Names (《互聯網域名管理辦法》) issued by MIIT on August 24, 2017 and effective as of November 1, 2017, and the CNNIC Implementing Rules of Domain Name Registration (《中國互聯網絡信息中心域名註冊實施細則》) issued by China Internet Network Information Center on May 28, 2012, which became effective on May 29, 2012 and was replaced by the Announcement on Promulgation and Implementation of a Series of Provisions of the Implementing Rules for the Registration of National Top-level Domain Names (《關於發佈並實施〈國家頂級域名注冊實施細則〉系列規定的公告》), which was issued on June 18, 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.

In November 2017, the MIIT promulgated the Notice of the Ministry of Industry and Information Technology on Regulating the Use of Domain Names in Providing Internet-based Information Services (《工業和信息化部關於規範互聯網信息服務使用域名的通知》), which became effective on January 1, 2018. Pursuant to the notice, the domain name used by an internet-based information service provider in providing internet-based information services must be registered and owned by such provider in accordance with the law. If the internet-based information service provider is an entity, the domain name registrant must be the entity (or any of the entity’s shareholders), or the entity’s principal or senior manager.

The Patent Law

According to the Patent Law of the PRC (Revised in 2008) (《中華人民共和國專利法》(2008年修訂)) promulgated by the NPC Standing Committee, and its Implementation Rules (Revised in 2010) (《中華人民共和國專利法實施細則》(2010年修訂)) promulgated by the State Council, the China National Intellectual Property Administration is responsible for administering patents in the PRC. The patent administration departments of provincial or autonomous regions or municipal governments are responsible for administering patents within their respective jurisdictions. The Patent Law of the PRC and its implementation rules provide for three types of patents, “invention”, “utility model” and “design”. Invention patents are valid for twenty years, while design patents and

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utility model patents are valid for ten years, from the date of application. The Chinese patent system adopts a “first come, first file” principle, which means that where more than one person files a patent application for the same invention, a patent will be granted to the person who files the application first. To be patentable, an invention or utility model must meet three criteria: novelty, inventiveness and practicability. A third-party player must obtain consent or a proper license from the patent owner to use the patent. Otherwise, the use constitutes an infringement of the patent rights. The Patent Law of the PRC was recently amended on October 17, 2020 and the revised version took effect from June 1, 2021.

REGULATIONS RELATING TO EMPLOYMENT AND SOCIAL WARFARE

The Labor Contract Law

The Labor Contract Law of the PRC (《中華人民共和國勞動合同法》) (the “**Labor Contract Law**”), which was implemented on January 1, 2008 and amended on December 28, 2012, is primarily aimed at regulating employee/employer rights and obligations, including matters with respect to the establishment, performance and termination of labor contracts. Pursuant to the Labor Contract Law, labor contracts shall be concluded in writing if labor relationships are to be or have been established between enterprises or institutions and the laborers. Enterprises and institutions are forbidden to force laborers to work beyond the time limit and employers shall pay laborers for overtime work in accordance with national regulations. In addition, labor wages shall not be lower than local standards on minimum wages and shall be paid to laborers in a timely manner. In addition, according to the Labor Contract Law: (i) employers must pay laborers double income in circumstances where within one year an employer fails to enter into an employment contract that is more than a month but less than a year from the date of employment and if such period exceeds one year, the parties are deemed to have entered into a labor contract with an “unfixed term”; (ii) employees who fulfill certain criteria, including having worked for the same employer for ten years or more, may demand that the employer execute a labor contract with them with an unfixed term; (iii) employees must adhere to regulations in the labor contracts concerning commercial confidentiality and non-competition; (iv) an upper limit not exceeding the cost of training supplied to the employee has been set as the amount of compensation an employer may seek for an employee’s breach of the provisions concerning term of services in the labor contract; (v) employees may terminate their employment contracts with their employers if their employers fail to make social insurance contributions in accordance with the law; (vi) if an employer pays for an employee professional training, the labor contract may specify a term of service. When the employee breaches term of service, the amount of compensation may not exceed the training expenses; (vii) employers who demand money or property from employees as guarantee or otherwise may be subject to a fine of more than RMB500 but less than RMB2,000 per employee; and (viii) employers who intentionally deprive employees of any part of their salary must, in addition to their full salary, pay such employees compensation ranging from 50% to 100% of the amount of salary so deprived if they fail to pay the salary deprived within ascertain period by the labor administration authorities.

According to the Labor Law of the PRC (《中華人民共和國勞動法》) promulgated on July 5, 1994 and effective on January 1, 1995 and amended on August 27, 2009 and December 29, 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 laborers in labor safety and sanitation in the PRC. Labor safety and sanitation facilities shall comply with state-fixed standards. Enterprises and institutions shall provide laborers with a safe workplace and sanitation conditions which are in compliance with state stipulations and the relevant articles of labor protection.

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Social Insurance and Housing Fund

As required under the Regulations on Work-Related Injury Insurance (《工傷保險條例》) implemented on January 1, 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 January 1, 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 July 16, 1997, the Decisions on the Establishment of the Medical Insurance Program for Urban Workers of the State Council (《國務院關於建立城鎮職工基本醫療保險制度的決定》) promulgated on December 14, 1998, the Regulations on Unemployment Insurance (《失業保險條例》) promulgated on January 22, 1999 and the Social Insurance Law of the PRC (《中華人民共和國社會保險法》) implemented on July 1, 2011 and amended on December 29, 2018, enterprises are obliged to provide their employees in the PRC with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, labor injury insurance and medical insurance. These payments are made to local administrative authorities and any employer that fails to contribute may be fined and ordered to make up within a prescribed time limit.

In accordance with the Administrative Regulations on the Housing Provident Fund (《住房公積金管理條例》) which was promulgated by the State Council in 1999 and amended on March 24, 2002 and March 24, 2019, respectively, enterprises must register at the competent managing center for housing funds and upon the examination by such managing center of housing funds, these enterprises shall complete procedures for opening an account at the relevant bank for the deposit of employees’ housing funds. Enterprises are also required to pay and deposit housing funds on behalf of their employees in full and in a timely manner.

REGULATIONS RELATING TO M&A AND OVERSEAS LISTING

M&A Rules

On August 8, 2006, six PRC governmental and regulatory agencies, including the MOFCOM and the CSRC, promulgated the Rules on Merger 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**”), a regulation with respect to the mergers and acquisitions of domestic enterprises by foreign investors that became effective on September 8, 2006 and was revised by the MOFCOM on June 22, 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, and thus changing the nature of the domestic company into a foreign-invested enterprise; or when the foreign investors establish a foreign-invested enterprise in the PRC, purchase the assets 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. The M&A Rules, among other things, purports to require that an offshore special vehicle, or a special purpose vehicle, formed for listing purposes and controlled directly or indirectly by PRC companies or individuals, shall obtain the approval of the CSRC prior to the listing and trading of such special purpose vehicle’s securities on an overseas stock exchange.

SOUTH KOREAN LAWS AND REGULATIONS

Under the Game Industry Promotion Act (the “**Game Act**”), “Game Products” are defined as certain video products produced for the purposes of gaming, leisure, or enhancing learning or physical exercise by using a data processing technology such as a computer program or mechanical machines, or other types of devices mainly manufactured to present such video products. Online

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games are considered as “Game Products” for the purpose of the Game Act, and thus are subject to the legal requirements under the Game Act. The major legal requirements under the Game Act are as follows:

- (1) Pursuant to the Game Act, in order to conduct online game distribution business in South Korea, registration of game distribution business with local government is required.
- (2) The Game Act requires anyone who produces, distributes or services the Game Products to obtain in advance a rating classification for each Game Product from the Game Rating and Administration Committee, or the GRAC, except for certain Game Products distributed solely for the educational, religious or public interest purposes or produced solely for the purposes of exhibitions or gaming contests as recommended by competent governmental authorities. Currently, the rating classifications for the Game Products comprise those permitted for all ages, 12 years or older, 15 years of older, or adults only.

Furthermore, pursuant to the Game Act, the distributors or service providers of the Game Products are required to specifically indicate the name of the producers and the relevant rating classifications, as well as the contents information, granted by the GRAC together with a rating classification in descriptors of sexuality, violence, fear/horror/threatening, language, alcohol/tobacco/drug, crime/anti-society or gambling.

However, in case that a company distributes its online games to users in South Korea through entering into distribution agreements with third party distributors, and such company is not directly involved in the distribution process, the aforementioned registration of game publishing business with local government will not be required so long as such games are proper for playing by the minors (i.e., not for adults only).

VIETNAMESE LAWS AND REGULATIONS

Under Decree No. 72/2013/ND-CP, as amended, issued on July 15, 2013 and effective on September 1, 2013 regarding the management, provision and use of Internet services and online information, a foreign entity is not allowed to directly publish and provide online game services in Vietnam. Providing game online services is providing users with the ability to access and play the games online. Vietnam does not commit to provide market access for cross-border online game services without involving companies incorporated under the Vietnamese laws. Only companies incorporated under the Vietnamese laws are entitled to publish and provide the online games for users in Vietnam. Before advertising, introducing and publishing online games (including the subsequent version updates or upgrade of the games) in Vietnam, a local company must meet certain regulatory requirements such as obtaining an online game publishing license or approval from the local authorities of Vietnam. Requirements may vary subject to classification of the online games.

In particular, G1 is a classification of online games having interaction among multiple players on the game server of the eligible company. G2, G3 and G4 are classifications of online games which do not have the said interaction under G1 but include (i) only interaction with the game server, (ii) interaction among players without involving game server or (iii) only offline game which is downloaded from online.

For G1 online games, the relevant company must first obtain a G1 license. Then, the G1 licensed company must obtain a G1 game content approval for each of its online games before advertising and/or publishing each game.

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JAPANESE LAWS AND REGULATIONS

Companies Act

Under the Companies Act of Japan (Act No. 86 of 2005, as amended), if a foreign company intends to continue to conduct transactions in Japan, it must appoint a representative in Japan (one or more of the representatives in Japan must be a person having an address in Japan) and complete registration as a foreign company within three weeks of the date on which the representative in Japan is appointed.

Consumer Protection

Sales operations in Japan are subject to various Japanese consumer protection regulations including, but not limited to, the Act against Unjustifiable Premiums and Misleading Representations (Act No. 134 of 1962, as amended) (the “**AUPMR**”). Under the AUPMR and related cabinet ordinances and public notices (together, the “**AUPMR Regulations**”), provision of a premium (including any article, money or other kinds of economic gain) by way of lot or other method using eventuality in exchange for presentation of a specific combination of different types of items representing two or more types of characters, pictures, codes, etc. is prohibited. In general, provision of in-game virtual items to an online game player on condition that such player collects a specific combination of the in-game items acquired as random rewards through lottery style mechanics from a large pool of in-game items (so-called a “loot box”), the “**Loot Box Method**”) is considered to fall under such prohibited provision of a premium under the AUPMR Regulations, unless the Loot Box Method is available for free.

In addition, the AUPMR Regulations prohibit business operators from making certain misleading representations in connection with transactions of goods or services. For example, any representation by which the quality, standard or any other matter relating to the substance of goods or services is shown to be much better than the actual quality, standard or such other matter is prohibited.

Payment Services

The Payment Services Act (Act No. 59 of 2009, as amended) (the “**PSA**”) regulates the issuance of prepaid payment instruments that can be used to purchase goods or services, in order to ensure the appropriate provision of payment services and protection of users, thereby contributing to the improvement of the safety, efficiency and convenience of the payment and settlement system.

Under the PSA, a person who issues a prepaid payment instrument for solely its own business (the “**Prepaid Payment Instrument**”) is generally required to submit a notification to a relevant local authorities once the outstanding balance of the Prepaid Payment Instrument as of the specific reference dates (i.e., March 31 or September 30 each year) has exceeded certain amount stipulated in the PSA (i.e., JPY10,000,000), if the Prepaid Payment Instrument is valid for no less than six months from the date of issuance of the Prepaid Payment Instrument. Accordingly, an online game business operator is subject to such notification obligation if it introduces an in-game prepaid payment instrument, such as in-game currency, coins and points, which can be used to purchase in-game items or receive in-game services.

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Telecommunications Business

The Telecommunications Business Act (Act No. 86 of 1984, as amended) (the “**TBA**”) regulates provision of telecommunications services by ensuring the proper and reasonable operation of telecommunications services and promoting fair competition in consideration of the public nature of telecommunications business.

Under the TBA, a person who provides services involving intermediating communications of any third parties (i.e., transmitting or exchanging information (including voice, code and image) without altering its content and acting as an intermediary or broker to complete communications between the third parties at different locations) through the use of telecommunications facilities is generally required to file a notification with the local authorities. Accordingly, the relevant opinions and guidelines issued by the local authorities state that an online game business operator who provides in-application message or chat services for its users would be subject to such notification obligation.

TAIWAN LAWS AND REGULATIONS

Laws in relation to Mainland Chinese Investment and Business Activity in Taiwan

Act Governing Relations between the People of the Taiwan Area and the Mainland Area

The Act Governing Relations between the People of the Taiwan Area and the Mainland Area (台灣地區與大陸地區人民關係條例) (the “**Cross-Strait Act**”), last amended on June 8, 2022, was enacted to regulate dealings between the peoples of the Taiwan Area and the Mainland Area and to handle legal matters arising therefrom.

Where a foreign investor is classified as an investor from Mainland Area, such investor has to apply with Taiwan Investment Commission for approval, and the permitted industry and business for an investor from Mainland Area to carry out are limited to those set forth in the Positive List for Mainland Area Investors (大陸地區人民來臺投資業別項目) (the “**Positive List**”) promulgated by Taiwan Investment Commission. On the other hand, investments from an individual or a company in Hong Kong (not otherwise classified as investor from Mainland Area) are governed by laws applied to foreign investors.

Pursuant to the former part of Paragraph 1 of Article 40–1 of the Cross-Strait Act, “unless permitted by the competent authorities and having established in the Taiwan Area a branch or liaison office, no profit-seeking enterprise of the Mainland Area may engage in any business activities in Taiwan”. Therefore, any Mainland Area business entity intending to, directly or indirectly, operate business in Taiwan shall obtain permission accordingly. Additionally, such permission is predicated upon whether the intended business scope of the Mainland Investor is expressly included and provided in the Positive List. According to Article 2 of the Cross-Strait Act, “Taiwan Area” refers to Taiwan, Penghu, Kinmen, Matsu, and any other area under the effective control of the government.

Any person engaging in business activities without the aforesaid permission constitutes violation against the provisions of Paragraph 1 of Article 40–1 of the Cross-Strait Act, and shall be punished with imprisonment of not more than three years, detention, or in lieu thereof or in addition thereto, a fine of not more than fifteen million New Taiwan Dollars (“**NT\$**”) and responsible for any civil liabilities. The competent authorities shall also prohibit the subject party from using the name of the company in the Taiwan Area.

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Laws in relation to Advertisement Activity

Regulations for Advertising Goods, Labor and General Services of the Mainland Area in the Taiwan Area

Pursuant to Paragraph 1 of Article 34 of the Cross-Strait Act: “The goods, labor, services or any other matters of the Mainland Area permitted in accordance with the Cross-Strait Act may have their advertisement broadcasted or published, or any other promotion activity thereof in the Taiwan Area.” Article 2 of Regulations for Advertising Goods, Labor and General Services of the Mainland Area in the Taiwan Area (大陸地區物品勞務服務在台灣地區從事廣告活動管理辦法) (the “**Advertising Management Regulations**”, last amended on August 29, 2013) further provides that individuals, juristic persons, organizations or other institutions of the Taiwan Area, foreign countries, Hong Kong, Macao or the Mainland Area may advertise Mainland Area goods, labor, general services or other matters by broadcasting, publishing, or other sales promotion activities, provided that such Mainland Area goods, labor, general services or other matters are permitted by Article 34 of the Cross-Strait Act and are not prohibited to be advertised by other laws or regulations. Similarly, as stipulated in Subparagraph 5 of Article 6 of the Advertising Management Regulations, advertising activities shall not be carried out in the Taiwan Area or conducted by way of placement marketing for goods, labor, general services or other items from Mainland Area that are not permitted, or where such permission is later revoked by the competent authorities.

Any violation against the aforesaid regulations by conducting advertising activities for game software of Mainland Area (“**Chinese Game Software**”) not otherwise permitted shall be subject to the punishment as stipulated in Article 89 of the Cross-Strait Act, which provides that “Any person who entrusts to another, is entrusted, or acts on its own to engage in advertisement broadcast or publication, or any other promotion activity in the Taiwan Area for any goods, service, or other item of the Mainland Area other than those prescribed in Paragraph 1 of Article 34, or violates Paragraph 2 of Article 34 or the mandatory or prohibitive provisions of the rules governing the management prescribed in accordance with Paragraph 4 of Article 34 shall be punished with an administrative fine of not less than one hundred thousand (NT\$100,000) but not more than five hundred thousand New Taiwan Dollars (NT\$500,000). Any advertisement referred to in the preceding paragraph, irrespective of who owns or holds it, shall be confiscated.”

Requirements in relation to Rating Information and Warning Statements

Protection of Children and Youths Welfare and Rights Act

Paragraph 1 of Article 44 of The Protection of Children and Youths Welfare and Rights Act (兒童及少年福利與權益保障法) (the “**Protection Act**”, last amended on January 20, 2021) provides that “The rating management obligator shall rate publications, video program tapes, and game software other than newspapers. The agency shall confirm other articles that influence children and youth’s mental health, that are subject to the same rating.” In addition, as stated in Paragraph 3 of Article 44 of the Protection Act: “The central competent agency shall enact the classification, content, marking, method of display, management, rating management obligators and other methods of articles listed in Paragraph 1 thereof.”

Game Software Rating Management Regulations

Furthermore, according to Paragraph 1 of Article 10 of Game Software Rating Management Regulations (遊戲軟體分級管理辦法) (the “**Rating Management Regulations**”, last amended on May 23, 2019): “Before the launch of any game software by any game software publisher or agent, rating

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information shall be specified in accordance with these regulations. However, if the game software is not supplied by such persons, the actual provider shall have the obligation of rating in accordance with these regulations.” In addition, as stated in Paragraph 2 of Article 10 of the Rating Management Regulations: “The persons under the previous Paragraph shall register the rating category of the game software and the content descriptions and the contact information for effective communication of the publisher or seller of the game software in the database of the central competent authority for the specific industry for the purpose of consultation.” Other than that, Article 13 of the Rating Management Regulations provides that certain warning statements shall be clearly indicated on the game package, user’s guide, downloaded page or homepage of the product in Chinese (*remaining paragraph omitted*). Lastly, pursuant to Paragraph 1 of Article 14 of the Rating Management Regulations: “If any obligor of rating management engages in any advertisement for any game software, in addition to compliance with applicable laws and regulations of the competent authority, the rating of the game software shall also be clearly displayed on such advertisement, unless the labeling is not possible due to excessively small size or special nature.”

Before the launch or publishing of any game software, a game software publisher or agent shall apply for rating of game software with central government authority in charge, which is the Industrial Development Bureau, Ministry of Economic Affairs (“**Industrial Bureau**”) according to the Protection Act and the Rating Management Regulations. All information such as the rating category of the game software, the content descriptions and the contact information of the publisher or seller of the game software shall be recorded in the database of the central competent authority. Subject to the aforementioned regulations, relevant warning statements shall also be clearly indicated on the game package and description of the game software, as well as the downloaded page or homepage, so as to comply with the regulations stipulated in the Rating Management Regulations. In addition to the aforesaid rating and warning statement to be indicated on the game software, the advertisement of the game software shall also comply with the Rating Management Regulations and applicable laws and regulations promulgated by the central government authority such that the rating shall be clearly displayed and labelled on such game software.

In the event of any violation against the aforesaid regulations, the latter part of Paragraph 1 of Article 15 of the Rating Management Regulations shall apply, which provides that: “If the rating label of the game software is inconsistent with these regulations, correction, recall or removal shall be carried out following notice by the central competent authority for the specific industry, local competent authority or competent authority for the specific industry.” Furthermore, pursuant to Paragraph 1 of Article 92 of the Protection Act: “If publications, video tapes, game software, and other articles other than newspapers are confirmed by the authorized agencies to have a negative impact on the physical and mental health of children and youth and therefore shall be classified, those responsible for rating management shall be fined a sum of no less than NT\$50,000 and no more than NT\$250,000 in case of one of the following conditions, and shall be ordered to improve in a certain period of time; the fine may be imposed per violation in case of failure to take corrective actions before the given deadline: 1) lack of rating management in violation of the regulations of Paragraph 1, Article 44; 2) violation of the regulations promulgated in accordance with Paragraph 3, Article 44 regarding the types and contents of classification.” Additionally, as stated in Paragraph 2 of Article 92 of the Protection Act: “Those responsible for rating management as specified in the preceding paragraph who violate the regulations relating to the marking specified in Paragraph 3 of Article 44 shall be fined a sum of no less than NT\$30,000 and no more than NT\$150,000 and ordered to take corrective actions in a certain period of time; the fine may be imposed per violation in case of failure to take corrective actions before the given deadline.”

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Laws in relation to Consumer Protection

Consumer Protection Act & Matters should be Described and should not be Described in the Standard Terms and Conditions of Online Games

Pursuant to Paragraph 1 of Article 17 of Consumer Protection Act (消費者保護法) (last amended on June 17, 2015): “In order to prevent consumer disputes, protect consumer interests, and promote the fairness for the use of standard contracts, the competent authorities at the central government may set mandatory or prohibitory provisions of standard contracts which required certain industries to apply after approved by the Executive Yuan and proclaimed by the competent authorities.” Furthermore, according to the “Matters should be Described and should not be Described in the Standard Terms and Conditions of Online Games” (網路連線遊戲服務定型化契約應記載及不得記載事項) specified in the Announcement Gong-Zi No. 10704605180 issued by Ministry of Economic Affairs of Taiwan on October 8, 2018, the specific information shall be clearly indicated on the official websites, log-in page or purchase page, as well as the game package by the service providers of the game software, such as rating as well as the age group prohibited from or suitable for the game pursuant to the Rating Management Regulations, and fee arrangement in respect of in-game sales transactions for points, products or other service (e.g., virtual currencies or treasure and advanced item) to be made on a paid basis (e.g., game store and online store). Failure to comply with the abovementioned requirements will result in an administrative fine of NT\$30,000 to NT\$300,000 according to Article 56–1 of Consumer Protection Act. Moreover, failure to take corrective actions in accordance with the further notice from the competent authorities within the time limit prescribed by the competent authorities shall be punished each time by an administrative fine of NT\$50,000 to NT\$500,000.

Laws in relation to Registration of Agency Information by Chinese Game Service Provider

Operation Procedure for Registration of Agency Information by the Game Service Providers of Mainland China

On May 26, 2018 the Industrial Bureau promulgated an administrative policy for Chinese Game Software, the “Operation Procedure for Registration of Agency Information by the Game Service Providers of Mainland China” (大陸地區遊戲業者登載代理資訊作業流程) (the “**Operation Procedure**”). In particular, subject to the restrictions set forth in the former part of Paragraph 1 of Article 40–1 of the Cross-Strait Act, the game service providers of Mainland China (“**Chinese Game Service Provider(s)**”) have yet to be permitted by the competent authorities of Taiwan Area to engage in any business activities regarding distribution of games in Taiwan. To ensure the Chinese Game Service Providers comply with relevant regulations by distributing and selling Chinese Game Software through license agreements with Taiwanese agents and to avoid any cross-border operation by the Chinese Game Service Providers, the Operation Procedure provides that if any research and development, production or publishing of the game software is funded by or operated by business or enterprises from Mainland Area, information of the game software shall be submitted to the Industrial Bureau for registration by a Taiwanese agent along with certification documents manifesting that the agent is licensed for the purpose of operating such game software prior to the launch of game software in Taiwan.

According to the Operation Procedure, the basic information of the game, including the information of production, publishing, agency and website links, shall be submitted to the Industrial Bureau for registration by the Taiwanese agent. Furthermore, disclosure of agency information for operation activities shall be submitted to the Industrial Bureau, including the agency information disclosed on the websites and advertisements, as well as supporting documents of business activities,

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descriptions of cash flow and establishment of customer service, illustrations of web server flow and other documents setting forth game accounts, cash flow, web server flow for all relevant personal data occurred during the process of the game.

Failure of the Chinese Game Service Provider to grant a license to a Taiwanese agent for distribution of game software and registration of the agency information results in a violation of the Operation Procedure as mentioned hereabove, and a notification of removing advertisements or suspending related business activities within the seven-day time limit will be issued by the Industrial Bureau. Continued failure to comply with the Operation Procedure or to remove the advertisements within the seven-day time limit may result in another notification from the Industrial Bureau. For those who fail to take corrective actions within the time limit after the second notification, the Industrial Bureau will issue a notice to service providers of the distribution platform, requests suspension of cash flow, media as well as other related service to the game service provider who violates the regulations. Copies of such notice will also be sent to all relevant competent authorities for record.

UNITED STATES LAWS AND REGULATIONS

Data Privacy

The U.S. does not have a comprehensive federal law that governs data privacy or data security. Instead the U.S. has a complex patchwork of sector-specific data privacy and data security laws and regulations at the federal level and sector-specific data and general privacy and data security laws and regulations at the state level. States have also enacted data breach notification laws, which generally require entities to notify affected customers of a data breach.

Data Privacy

Data privacy laws generally govern how data is collected, used, and shared. In the U.S., data privacy laws are only sector specific at the federal level (e.g., healthcare, financial data, education). Industries that do not have sector-specific statutory law generally fall within the enforcement authority of the Federal Trade Commission (“FTC”). The FTC does not prescribe data privacy rules, but rather, the FTC issues data privacy “best practices.” These “best practices” are generally conveyed by the FTC through initiating enforcement proceedings against entities that, in the FTC’s view, fall short of adequately protecting privacy. The FTC has the authority to bring enforcement actions under Section 5 of the FTC Act. Section 5 prohibits companies from engaging in “unfair or deceptive acts or practices.” Under Section 5, the FTC may bring legal actions against organizations that fail to live up to promises regarding safeguarding consumers’ personal information, for example, failing to follow a posted privacy policy that contains data privacy representations related to the Fair Information Practice Principles such as notice, consent, or control (e.g., the ability to opt out of third party data sharing).

Without a comprehensive federal privacy law, states have gained momentum in the pursuit of comprehensive data privacy laws at the state level. In 2018, California enacted the California Consumer Privacy Act (“CCPA”), which applies to for-profit business that do business in California and either (a) have a gross annual revenue of over US\$25 million; (b) buy, receive, or sell the personal information of 50,000 or more California residents, households, or devices; or (c) derive 50% or more of their annual revenue from selling California residents’ personal information. The CCPA secures privacy rights for California consumers including the right to know, right to delete, right to opt-out of sales, and right to non-discrimination. The CCPA also requires businesses to provide certain notices explaining their privacy practices.

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Currently, the CCPA is the only state privacy law in force; however, this landscape is rapidly changing. Namely, California voters approved the California Privacy Rights Act (“CPRA”) on November 3, 2020, and Virginia enacted the Virginia Consumer Data Protection Act (“VCDPA”) on March 2, 2021. Both laws will become effective on January 1, 2023. Moreover, to date, state lawmakers have introduced bills similar to the CCPA in 26 states.

The CPRA introduces amendments to the CCPA and establishes the California Privacy Protection Agency. The VCDPA applies to all persons that conduct business in Virginia and either (a) control or process personal data of at least 100,000 consumers, or (b) derive over 50% of gross revenue from the sale of personal data and control or process personal data of at least 25,000 consumers.

Data Security

Data security laws generally govern how data should be safeguarded to prevent unauthorized access to or use of customer data. Similar to data privacy laws, federal data security laws are sector specific. For example, the Health Insurance Portability and Accountability Act (“HIPAA”) and the Gramm-Leach Bliley Act (“GLBA”) both impose data security provisions.

In the absence of a comprehensive federal data security law, state lawmakers have passed laws requiring companies to take information security measures to protect consumers’ sensitive information. Generally, state data security laws require businesses that own or license personal information of a state resident to implement and maintain reasonable security procedures and practices necessary to protect personal information from unauthorized access, destruction, use, modification, and disclosure. Under data security laws, personal information is generally defined as an individual name in combination with either a Social Security number, driver’s license number, financial account number or credit or debit card number, medical information, or health insurance information.

The relevant authorities do not proscribe data security standards, but instead merely publish data security “best practices” or recommend meeting or exceeding relevant industry accepted standards, like NIST 27003 or SOC 2. The authority may initiate enforcement proceedings against entities that, relative to other entities in similar industries, failed to implement reasonable data security — the standards develop based on the market’s adoption of security practices and changes in technology. Data security violations can result, for example, by failing to honor security representations related to data, or failing to implement such commercially reasonable security procedures based upon the nature of the data being stored.

Data Breach Notification

Lawmakers have enacted data breach notification laws in all 50 states and other U.S. territories, including the District of Columbia, Guam, Puerto Rico, and the Virgin Islands, to govern how entities that suffer a data breach should respond. Each data breach notification law provides for different definitions of personal information, exceptions, and obligations regarding the notifications of affected customers, attorney generals, and state regulatory agencies. These data breach notification laws generally limit the definition of personal information to an individual’s first name or first initial and last name in combination with one or more of the following: social security number, driver’s license number or state identification number, or account number or credit or debit card number in combination with a security code, access code, or password. Approximately

REGULATORY OVERVIEW

two-thirds of states expand the definition to include additional elements under the definition of personal information and one-third of states provide for a private right of action to individuals harmed by the disclosure of their personal information.

Intellectual Property

Copyrights

U.S. copyright law governs original works of authorship, including literary works, musical works, dramatic works, choreographic works, pictorial, graphic, and sculptural works, motion pictures and audiovisual works, sound recordings, and architectural works. Copyright ownership provides the holder of the copyright with the right to (a) reproduce and make copies of an original work; (b) prepare derivative works; (c) distribute; (d) publicly perform the work; (e) publicly display the work; and (f) perform sound recordings publicly. When an entity creates content, it is important to recognize who owns the copyright and the rights associated with the copyright. For example, when products or publications contain contents that third parties create, the use must be authorized to avoid copyright infringement claims.

Patents

U.S. patent law grants the inventor of a process, design, or invention the right to exclude others from making, using, offering for sale, or selling, the process, design, or invention. U.S. patent law provides for utility and design patents. Utility patents are granted to individuals who invent or discover any new and useful process, machine, article of manufacture, or composition of matter. Design patents are granted to individuals who invent a new, original, and ornamental design for an article of manufacture. Generally, an entity should not make or sell a product in the U.S. that infringes a patent.

Trademark and Trade Dress

A U.S. trademark may be a word, name, symbol, or device that is used in commerce to indicate and distinguish the source of the goods. Trademark rights may prevent others from using a confusingly similar mark. Trade dress generally relates to the distinctive packaging or design of a product that promotes the product and distinguishes it from other products in the marketplace. An entity should consider the risks of using the same or similar mark to a mark that is already trademarked.

Trade Secrets

A trade secret is information that has actual or potential economic value, has value to others who cannot legitimately obtain the information, and is information that is subject to reasonable efforts to maintain secrecy. U.S. courts have the right to protect a trade secret by ordering misappropriation to stop, that the secret be protected from public exposure and in some instances, ordering the seizure of the trade secret. An entity should consider what information may be subject to trade secret and confidentiality obligations.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

OVERVIEW

We are a mobile game developer, publisher and operator in the PRC with a focus on mobile sports simulation games for global markets. Our business commenced in 2013 through the establishment of Wangchen Technology, one of our PRC Operating Entities. Over the years, we developed and operated primarily mobile sports games. As of the Latest Practicable Date, we developed and operated four mobile sports games, among which *Football Master* (足球大師), *NBA Basketball Master* (NBA籃球大師) and *Football Champion* (最佳11人 — 冠軍球會) formed the backbone of our business and contributed the majority of our revenue during the Track Record Period. We have cultivated our user base from *Football Master* (足球大師), our first flagship mobile sports management simulation game launched in July 2014. Leveraging our success of *Football Master* (足球大師), we developed and launched our second mobile sports management simulation game, *NBA Basketball Master* (NBA籃球大師) in September 2017. Our *Football Champion* (最佳11人 — 冠軍球會) was launched in April 2020 with enhanced realistic graphics to feature more authentic 3D simulation on professional player’s motion, and with IP right licenses obtained from internationally renowned sports league, sports associations and sports clubs that are appealing to global football fans. In July 2022, we launched our new mobile sports action simulation game, *Total Football* (最佳球會) which incorporates the state of art 3D gameplay scenes and more advanced AI technology to enhance users’ sensational experience in the virtual sports matches by the application of manual steering skills.

Our Founders, Mr. Jia, who is also our executive Director, the chairman of our Board and our chief executive officer, and Mr. Huang, who is also our executive Director, together with the other Original Shareholders established Wangchen Technology to engage in mobile sports games development. Mr. Jia and Mr. Huang funded their initial investment in Wangchen Technology with their own resources and savings. For further details of the background and experience of Mr. Jia and Mr. Huang, please refer to the section headed “Directors and Senior Management” in this document.

Our Company was incorporated in the Cayman Islands on June 12, 2018 as an exempted company with limited liability.

MILESTONES

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

Year	Event
2013	Wangchen Technology was established by our Founders in December.
2014	<i>Football Master</i> (足球大師), our first flagship mobile football management simulation game, was launched in July.
2016	We secured partnership with sports league, sports associations and sports clubs, such as FIFPro, F.C. Barcelona, Juventus F.C., F.C. Internazionale Milano and NBA.
	Wangchen Technology obtained the qualification as a “High and New Technology Enterprise”.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Year	Event
2017	<i>NBA Basketball Master</i> (<i>NBA籃球大師</i>), a mobile basketball management simulation game developed by us, was launched in September.
2018	We secured partnership with NBPA.
2019	We secured partnership with Liverpool F.C. and A.C. Milan.
2020	<i>Football Champion</i> (<i>最佳11人 — 冠軍球會</i>), another mobile football management simulation game developed by us, was launched in April.
2022	Our new mobile football action simulation game, <i>Total Football</i> (<i>最佳球會</i>), was launched in July.
	Wangchen Technology was recognised as Technologically Advanced Small to Medium Enterprise of Shenzhen Municipality of 2021 (2021年度深圳市專精特新中小企業) by Industry and Information Technology Bureau of Shenzhen Municipality (深圳市工業和信息化局).
	We secured licensing partnership with Borussia Dortmund.

OUR MAJOR SUBSIDIARIES

Our PRC Operating Entities

As of the Latest Practicable Date, we had two PRC Operating Entities in the PRC, namely Wangchen Technology and Moji Technology, which made material contribution to the results of operation of our Group during the Track Record Period. The details of our PRC Operating Entities are set forth below:

Name of Entity	Date of establishment	Principal business activities	Ownership as of the date of this document	Business License(s) Owned
Wangchen Technology	December 20, 2013	Development and operation of online games	100%	ICP License
Moji Technology	July 8, 2016	Operation of online games	100%	ICP License

Due to foreign ownership restrictions under the applicable PRC laws and regulations, we have implemented the Contractual Arrangements with respect to our PRC Operating Entities whereby we would gain effective control over, and receive substantially all the economic benefits generated by the businesses operated by, our PRC Operating Entities. For details, please refer to “Contractual Arrangements” in this document.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Wangchen Technology

Wangchen Technology was established in the PRC with limited liability on December 20, 2013 with an initial registered capital of RMB100,000. Upon its establishment, the registered capital of Wangchen Technology was held as to 42.5% by Mr. Jia, 25.5% by Mr. Huang, 17% by Mr. Wang, 7.5% by Chuangxingu and 7.5% by Longyuan Tianqi.

As at the Latest Practicable Date, Chuangxingu was owned as to (1) 60.31%, (2) 14.43%, (3) 7.80%, (4) 7.00%, (5) 5.00%, (6) 2.90%, (7) 1.56% and (8) 1.00% by (1) Gong Chuanjun (龔傳軍), (2) Qin Jianxiang (秦建香), (3) Xiao Xu (肖旭), (4) Jiadao Gongcheng, (5) 深圳市前海喜樂佳投資有限公司 (for identification only, Shenzhen Qianhai Xilejia Investment Co., Ltd.), (6) 北京厚德文華投資諮詢有限公司 (for identification only, Beijing Houde Wenhua Investment Consulting Co., Ltd.), (7) Liu Chengmin (劉成敏) (“**Mr. Liu**”) and (8) 北京正禾谷科技發展有限公司 (for identification only, Beijing Zhenghegu Technology Development Co., Ltd.), respectively. All shareholders of Chuangxingu are private investors.

As at the Latest Practicable Date, Mr. Gao Bo (高波) was the general partner of Longyuan Tianqi with approximately 1.19% partnership interest in Longyuan Tianqi, and each of (1) 北京百度網訊科技有限公司 (for identification only, Beijing Baidu Netcom Science Technology Co., Ltd.), (2) 寧波崑崙點金股權投資有限公司 (for identification only, Ningbo Kunlun Dianjin Equity Investment Co., Ltd.), (3) Mr. Liu, (4) 北京創時信和創業投資有限公司 (for identification only, Beijing Chuangshixinhe Venture Capital Co., Ltd.), (5) 天津和易谷雨股權投資合夥企業(有限合夥) (for identification only, Tianjin Heyiguyu Equity Investment Partnership (Limited Partnership)), (6) He Honghui (何宏輝), (7) Tian Yan (田艷), (8) Tao Zheng (陶正), (9) Liang Qiangzhao (梁強昭), (10) 四川省鑫巢資本管理有限公司 (for identification only, Sichuan Xinchao Capital Management Co., Ltd.) and (11) Xiao Yongquan (肖永泉) was a limited partner of Longyuan Tianqi with approximately (1) 19.23%, (2) 19.19%, (3) 15.38%, (4) 11.54%, (5) 11.54%, (6) 3.85%, (7) 3.85%, (8) 3.85%, (9) 3.85%, (10) 3.85% and (11) 2.69% partnership interest in Longyuan Tianqi, respectively. Beijing Baidu Netcom Science Technology Co., Ltd. is ultimately controlled by Baidu, Inc., a company primary listed on Nasdaq Global Select Market (ticker symbol: BIDU) and secondary listed on the Stock Exchange (stock code: 9888), and all other limited partners are private investors.

Since its establishment, Wangchen Technology has undertaken a series of capital increases to raise funds for its business development and to bring in new shareholders. There were also equity transfers in Wangchen Technology, resulting in the exit of certain investors and the entry of new investors, without any fund-raising by Wangchen Technology. Please refer to the paragraph headed “The Onshore Pre-[REDACTED] Investments” below.

Employee share incentive arrangements

For the purpose of incentivizing Mr. Zeng Ke (曾科) (one of our senior management) to contribute to building up our research and development capabilities, with effect from April 22, 2014 and April 25, 2014, each of Mr. Jia and Mr. Huang agreed to treat 1.5% equity interest in Wangchen Technology as being held on behalf of Mr. Zeng Ke, respectively, subject to fulfillment of certain performance conditions by Mr. Zeng Ke. On April 22, 2014, Mr. Jia also entered into a share option agreement (the “**Zeng Ke Option Agreement**”) with Mr. Zeng Ke, pursuant to which Mr. Jia granted to Mr. Zeng Ke options to purchase from Mr. Jia up to 5% equity interest in Wangchen Technology in three batches over three years, each batch exercisable by Mr. Zeng Ke in respect of up to approximately 1.6667% equity interest in Wangchen Technology at par value after he had completed a relevant full year of employment with our Group, subject to fulfillment of certain performance

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

conditions by Mr. Zeng Ke (the “Zeng Ke Options”). The Zeng Ke Options were exercised by Mr. Zeng Ke in respect of in aggregate 3.7352% equity interest in Wangchen Technology (then diluted to 3.2518% by subsequent capital increases of Wangchen Technology), and Mr. Jia transferred the relevant equity interest to Mr. Zeng Ke and Wangnuo Kanpu on January 11, 2018 as described below.

On January 11, 2018, pursuant to the relevant notices of exercise dated December 31, 2017, the following equity transfers were effected by Mr. Jia and Mr. Huang at nominal consideration to transfer the relevant incentive shares onto the relevant employee shareholding platforms and senior management:

Transferor	Transferee	Percentage of equity interest transferred
Mr. Jia	Wangnuo Kanpu (<i>Notes 1 and 2</i>)	6.691%
	Chengwang Investment (<i>Notes 1 and 3</i>)	1.55%
	Wangsheng Xiluo (<i>Notes 1 and 4</i>)	0.535%
	Mr. Zeng Ke (<i>Note 5</i>)	1.215%
	Mr. Li Xin (<i>Note 6</i>)	1.5%
	Total:	11.491%
Mr. Huang	Chengwang Investment (<i>Notes 1 and 2</i>)	1.5%
	Wangsheng Xiluo (<i>Notes 1 and 4</i>)	0.53%
	Mr. Zeng Ke (<i>Note 5</i>)	1.215%
	Mr. Li Xin (<i>Note 6</i>)	1.5%
	Total:	4.745%

Notes:

1. Wangnuo Kanpu, Chengwang Investment and Wangsheng Xiluo are limited partnerships established in the PRC which served as platforms through which our Founders provided selected senior management and employees of our Group an opportunity to hold indirect beneficial ownership in Wangchen Technology as share incentives.
2. As of January 11, 2018, Wangnuo Kanpu was owned as to (i) 48.60% by Mr. Zeng Ke (a senior management of our Group) as general partner, (ii) 18.60% by Mr. Li Zhenyang (an employee of our Group) as general partner, (iii) 18.60% by Mr. Yin Tao (an employee of our Group) as general partner, (iv) 6.70% by Mr. Tang Yiwen (an employee of our Group) as limited partner, (v) 6.70% by Mr. Yao Jialuo (an employee of our Group) as limited partner, and (vi) 0.80% by Mr. Jia as general partner.

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3. As of January 11, 2018, Chengwang Investment was owned as to (i) 32.7869% by Mr. Huang as general partner; (ii) 34.4262% Mr. Jia as limited partner; and (iii) 32.7869% by Mr. Zhao Xin (one of our senior management) as limited partner.
4. As of January 11, 2018, Wangsheng Xiluo was owned as to (i) 25.30% by Mr. Jia as general partner; (ii) 49.80% by Ms. Wang Qinwen (a former employee of our Group) as limited partner; and (iii) 24.90% by Mr. Huang as limited partner.
5. Mr. Zeng Ke is a senior management of our Group.
6. Mr. Li Xin is an executive Director.

On September 9, 2020, Mr. Zeng Ke and Mr. Jia transferred 2.2925% and 2.6245% equity interests in Wangchen Technology to Wangbo Nawu at a nominal consideration of RMB1, respectively. Mr. Zeng Ke also transferred 48.60% partnership interest (representing all the interest held by him) in Wangnuo Kanpu (which held 6.3123% equity interest in Wangchen Technology) to Mr. Jia on September 4, 2020. The above transfers by Mr. Zeng Ke were intended to unwind the share incentive arrangement that was made in favour of Mr. Zeng Ke by Mr. Jia and Mr. Huang as Mr. Zeng Ke did not fulfill the relevant performance targets as originally intended. Wangbo Nawu is a limited partnership established in the PRC, whose general partner is Mr. Jia, and served as a platform through which our Founders intended to provide selected senior management and employees of our Group an opportunity to hold indirect beneficial ownership in Wangchen Technology as share incentives. As of September 9, 2020, Wangbo Nawu was owned as to (i) 76.70% by Mr. Jia as general partner and (ii) 23.30% by Mr. Huang as limited partner.

As part of the Reorganization, new Shares were allotted and issued to the offshore investment vehicles of the relevant employees to substantially reflect their see-through beneficial interest in Wangchen Technology held by the employee shareholding platforms. Please refer to the paragraph headed “Reorganization” below for details of the Reorganization.

As part of the employee share incentive arrangement between the Founders and the relevant employees, Ms. Wang Qinwen (王沁雯) obtained 49.8% partnership interest in Wangsheng Xiluo in July 2017 and her offshore investment vehicle, Dawn Treasure Holding Limited, was allotted and issued 5,003 Shares (representing approximately 0.5003% of the issued share capital of our Company) in May 2021 pursuant to the Reorganization. In accordance with the employee share incentive arrangement, following her resignation as employee of our Group on June 30, 2022, Ms. Wang Qinwen (i) procured Dawn Treasure Holding Limited to transfer 5,003 Shares to Mr. Jia’s offshore investment vehicle, Great Shine, at a consideration of HK\$1 (based on nominal consideration), and (ii) transferred her 49.8% partnership interest in Wangsheng Xiluo to Mr. Jia at a consideration of RMB1 (based on nominal consideration). The above transfers were completed on July 25, 2022 and July 29, 2022, respectively. Immediately upon completion of the above transfers, Great Shine held 275,647 Shares, representing approximately 27.56% of the issued share capital of our Company, and Wangsheng Xiluo was owned as to 61.1% by Mr. Jia, 24.6% by Mr. Li Xin and 14.3% by Mr. Huang.

Moji Technology

Moji Technology was established as a limited liability company in the PRC on July 8, 2016 with an initial registered capital of RMB1,000,000. Upon its establishment, Moji Technology was wholly-owned by an Independent Third Party.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

On March 30, 2017, the entire equity interest in Moji Technology was transferred by its then sole shareholder to Wangchen Technology at a consideration of RMB2,000, which was determined with reference to the investment cost of Moji Technology. Since then, Moji Technology has been wholly-owned by Wangchen Technology.

Chuangzhen Shijie

Chuangzhen Shijie was established as limited liability company in the PRC on December 21, 2016 with an initial registered capital of RMB5,000,000. Upon its establishment, Chuangzhen Shijie was owned as to 60% by Wangchen Technology, 21% by Yingnuo Ruier, 10% by Xu Weiwei (許威威) (an Independent Third Party), 3.5% by Wang Fang (王芳) (an Independent Third Party), 3% by Wu Qing (吳慶) (an Independent Third Party other than his interest in Yingnuo Ruier), 2% by Ma Guolin (馬國琳) (one of our existing Pre-[REDACTED] Investors) and 0.5% by Deng Yun (鄧贇) (an Independent Third Party).

After a series of equity transfer (including equity transfers effected pursuant to the Reorganization), Chuangzhen Shijie became owned as to 84% by the WFOE, 10% by Xu Weiwei (許威威) (an Independent Third Party), 3.5% by Wang Fang (王芳) (an Independent Third Party), 2% by Shenzhen Yunda (one of our existing Pre-[REDACTED] Investors) and 0.5% by Deng Yun (鄧贇) (an Independent Third Party). Please refer to the paragraph headed “Reorganization” below for details for the equity transfers effected pursuant to the Reorganization.

Gala Sports HK

Gala Sports HK was incorporated in Hong Kong with limited liability on April 17, 2012. Upon its incorporation, Gala Sports HK had a share capital of HK\$10,000 comprising 10,000 ordinary shares, all of which were fully paid up and subscribed by Mr. Huang Xiang. On March 20, 2014, Mr. Huang transferred all such 10,000 ordinary shares in Gala Sports HK to Wangchen Technology at a consideration of HK\$10,000.

As part of the Reorganization, on May 6, 2021, all the issued shares of Gala Sports HK were transferred by Wangchen Technology to Gala Technology (BVI) at a consideration of RMB3,155,880, which represented the book value of the equity investment by Wangchen Technology in Gala Sports HK in the management accounts of Wangchen Technology as of 31 December 2020. Since then, Gala Sports HK has been wholly owned by Gala Technology (BVI).

The WFOE

The WFOE was established in the PRC with limited liability on July 30, 2019 with an initial registered capital of RMB10.0 million. On December 15, 2021, the registered capital of the WFOE increased from RMB10.0 million to RMB42.0 million. Since its establishment, the WFOE has been wholly-owned by Gala Technology (HK).

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

PRE-[REDACTED] [REDACTED]

The Onshore Pre-[REDACTED] Investments

A number of investors (the “Onshore Pre-[REDACTED] Investors”) made pre-[REDACTED] investments in Wangchen Technology between 2015 and 2021 (the “Onshore Pre-[REDACTED] Investments”). The following table sets forth key particulars of the Onshore Pre-[REDACTED] Investments.

Name of the Onshore Pre-[REDACTED] Investors	Date of Agreement	% equity interest in Wangchen Technology acquired	Total consideration (RMB)	Proceeds received by Wangchen Technology (RMB)	Corresponding valuation of Wangchen Technology (RMB)	Date on which consideration was fully settled	Cost per Share (RMB)	Discount to the mid-point of the [REDACTED] range (Note 10)	Shareholding in our Company immediately upon completion of the [REDACTED] (assuming full conversion of the Pre-[REDACTED] Convertible Bonds) (Note 1)
<i>By way of capital injection to Wangchen Technology (the “Capital Increases”)</i>									
Baotian Investment	January 24, 2015	4.9955%	2,500,000	2,500,000	50,000,000	March 17, 2015	[REDACTED]	[REDACTED]	[REDACTED]
Yashang Mobeier	January 24, 2015	4.9955%	2,500,000	2,500,000	50,000,000	March 17, 2015	[REDACTED]	[REDACTED]	[REDACTED]
Yingfeng Zhihui	August 10, 2016	5%	15,000,000	15,000,000	300,000,000	September 2, 2016	[REDACTED]	[REDACTED]	[REDACTED]
Zhuiyuan Caifu	August 10, 2016	5%	15,000,000	15,000,000	300,000,000	September 1, 2016	[REDACTED]	[REDACTED]	[REDACTED]
Longyuan Yunteng	January 20, 2017	1.8868%	6,000,000	6,000,000	318,000,000	February 13, 2017	[REDACTED]	[REDACTED]	[REDACTED]
Yashang Yueke	January 20, 2017	1.8868%	6,000,000	6,000,000	318,000,000	March 8, 2017	[REDACTED]	[REDACTED]	[REDACTED]
Jiadao Gongcheng	January 20, 2017	1.8868%	6,000,000	6,000,000	318,000,000	June 28, 2017	[REDACTED]	[REDACTED]	[REDACTED]
<i>By way of acquisition from other shareholders of Wangchen Technology</i>									
Zhangshang Zongheng (Note 3)	January 24, 2015	5%	2,500,000	N/A	N/A (Note 8)	June 30, 2015	[REDACTED]	[REDACTED]	[REDACTED]
Chuangxin Yizhou (Note 3)	January 24, 2015	2%	1,000,000	N/A	N/A (Note 8)	June 2, 2015	[REDACTED]	[REDACTED]	[REDACTED]
Mr. Zhang Litao (Note 4)	November 4, 2016	2.5%	6,111,111	N/A	N/A (Note 8)	December 15, 2016	[REDACTED]	[REDACTED]	[REDACTED]
Yingfeng Zhihui (Note 4)	November 4, 2016	2.5%	6,111,111	N/A	N/A (Note 8)	November 25, 2016	[REDACTED]	[REDACTED]	[REDACTED]
Zhuiyuan Caifu (Note 4)	November 4, 2016	2.5%	6,111,111	N/A	N/A (Note 8)	November 23, 2016	[REDACTED]	[REDACTED]	[REDACTED]
Heguang Investment (Note 4)	November 4, 2016	2.7%	6,600,000	N/A	N/A (Note 8)	January 3, 2017	[REDACTED]	[REDACTED]	[REDACTED]
Tap-4fun (Note 2)	December 8, 2017	4.4955%	13,041,138.78	N/A	N/A (Note 8)	December 26, 2017	[REDACTED]	[REDACTED]	[REDACTED]
Suzhou Youshun (Note 2)	December 8, 2017	2.7%	8,580,000	N/A	N/A (Note 8)	November 6, 2017	[REDACTED]	[REDACTED]	[REDACTED]
Shenzhen Yunda (Note 5)	January 29, 2018	2.8302%	8,100,000	N/A	286,200,000	March 17, 2017	[REDACTED]	[REDACTED]	[REDACTED]
Yashang Nuohui (Note 6)	April 19, 2018	4%	16,000,000	N/A	400,000,000	March 15, 2018	[REDACTED]	[REDACTED]	[REDACTED]
Mr. Ma Guolin (Note 6)	April 19, 2018	0.5%	2,000,000	N/A	400,000,000	April 25, 2018	[REDACTED]	[REDACTED]	[REDACTED]
Xinhuaiyi (Note 7)	May 29, 2020	7.0755%	21,111,111	N/A	N/A (Note 8)	May 29, 2020	[REDACTED]	[REDACTED]	[REDACTED]
Suzhou Fudebo (Note 7)	October 20, 2020	7.0755%	26,000,000	N/A	N/A (Note 8)	April 27, 2021	[REDACTED]	[REDACTED]	[REDACTED]

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Notes:

1. The shareholding percentage of the existing Onshore Pre-[REDACTED] Investors as of the Latest Practicable Date held through their respective offshore investment vehicle is shown. For details of the offshore investment vehicles of the existing Onshore Pre-[REDACTED] Investors, please see the paragraph headed “Reorganization — 7. Issue of Shares to certain offshore investment vehicles to substantially reflect the original beneficial shareholding in Wangchen Technology” below.
2. Baotuan Investment divested its entire equity investment in our Group, being 4.4995% equity interest in Wangchen Technology at the time of the transfer, by transferring such equity interest to Tap4fun at a consideration of RMB13,041,138.78. Huguang Investment also divested its entire equity investment in our Group, being 2.7% equity interest in Wangchen Technology at the time of the transfer, by transferring such equity interest to Suzhou Youshun at a consideration of RMB8,580,000. The registration for these equity transfers was approved by the Shenzhen Administration for Market Regulation (the “**Shenzhen AMR**”) on December 26, 2017.
3. Chuangxing (one of the Original Shareholders) transferred 3.5% equity interest in Wangchen Technology to Zhangshang Zongheng at a consideration of RMB1,750,000, and Longyuan Tianqi (one of the Original Shareholders) transferred 1.5% and 2% equity interest in Wangchen Technology to Zhangshang Zongheng and Chuangxin Yizhou at a consideration of RMB750,000 and RMB1,000,000, respectively. The registration for these equity transfers was approved by the Shenzhen AMR on August 12, 2015.
4. On December 7, 2016, the registration for the following equity transfers was approved by the Shenzhen AMR:
 - (i) Zhangshang Zongheng divested its entire equity investment in our Group, being 4.5% equity interest in Wangchen Technology at the time of the transfer, by transferring 2.5% and 2% equity interest in Wangchen Technology to Mr. Zhang Litao and Yingfeng Zhihui at a consideration of RMB6,111,111 and RMB4,888,889, respectively;
 - (ii) Chuangxin Yizhou divested its entire equity investment in our Group, being 1.8% equity interest in Wangchen Technology at the time of the transfer, by transferring 0.5% and 1.3% equity interest in Wangchen Technology to Yingfeng Zhihui and Zhuiyuan Caifu at a consideration of RMB1,222,222 and RMB3,177,778, respectively;
 - (iii) Mr. Jia transferred 1.2% equity interest in Wangchen Technology to Zhuiyuan Caifu at a consideration of RMB2,933,333; and
 - (iv) Mr. Wang (one of the Original Shareholders) divested his equity interest in our Group, being 2.7% equity Wangchen Technology, by transferring 2.7% equity interest in Wangchen Technology to Huguang Investment at a consideration of RMB6,600,000.
5. Mr. Huang transferred 2.8302% equity interest in Wangchen Technology to Shenzhen Yunda at a consideration of RMB8,100,000. The registration for the equity transfer was approved by the Shenzhen AMR on January 29, 2018.

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6. Mr. Jia transferred 4% equity interest in Wangchen Technology to Yashang Nuohui at a consideration of RMB16,000,000, and Mr. Li Xin transferred 0.5% equity interest in Wangchen Technology to Mr. Ma Guolin at a consideration of RMB2,000,000. The registration for these equity transfers was approved by the Shenzhen AMR on April 20, 2018.
7. Xinhaiyi, previously the 100% holding company of Yingfeng Zhihui (then known as 深圳市易思博軟件技術有限公司 (for identification only, Shenzhen Yisibo Software Technology Co., Ltd.)) until Xinhaiyi's disposal of 95% equity interest in Yingfeng Zhihui to a third party in November 2019, replaced Yingfeng Zhihui as an investor in our Group and acquired all the equity interest in Wangchen Technology held by Yingfeng Zhihui (being 7.0755% equity interest in Wangchen Technology) on May 29, 2020 at a consideration of RMB21,111,111 and the registration for such equity transfer was approved by the Shenzhen AMR on the same day. The consideration payable by Xinhaiyi to Yingfeng Zhihui was settled by way of set off against the consideration receivable by Xinhaiyi from the said third party in relation to Xinhaiyi's disposal of Yingfeng Zhihui to such third party. Xinhaiyi divested its equity interest in our Group (being 7.0755% equity interest in Wangchen Technology) to Suzhou Fudebo at a consideration of RMB26,000,000 and the registration for such equity transfer was approved by the Shenzhen AMR on October 20, 2020. To the best knowledge of the Directors, the divestment of 7.0755% equity interest in Wangchen Technology by Xinhaiyi was a commercial decision of Xinhaiyi after taking into account Xinhaiyi's own business focus on the development of its principal business and its level of liquidity and cash flow.
8. The valuation basis was not stated as the relevant transfers were made between third parties.
9. The consideration payable by Tap4fun to Baotuan Investment for the equity transfer was settled by way of set off against the payables receivable by Tap4fun from Baotuan Investment.
10. Based on the HK\$ to RMB exchange rate set out in “Information about the Document and the [REDACTED] — Exchange Rates” of this document for illustration purpose only.

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Out of the Onshore Pre-[REDACTED] Investments, our Group received proceeds from the Capital Increases. Our Group utilized the [REDACTED] from the Onshore Pre-[REDACTED] Investments to finance our research and development activities, staff recruitment and working capital requirements. As at the Latest Practicable Date, all of the [REDACTED] raised by our Group from the Onshore Pre-[REDACTED] Investments had been utilized as intended.

Our Directors were of the view that our Group would benefit from the capital raised through the Onshore Pre-[REDACTED] Investments, the Onshore Pre-[REDACTED] Investors’ knowledge and experience, and the endorsement of our Group’s performance, strength and prospects reflected by the Onshore Pre-[REDACTED] Investments.

As part of the Reorganization (details of which are set out in “Reorganization — 7. Issue of Shares to certain offshore investment vehicles to substantially reflect the original beneficial shareholding in Wangchen Technology” below), Shares were allotted and issued to the offshore investment vehicles of the Onshore Pre-[REDACTED] Investors. Immediately before the [REDACTED], further Shares will be allotted and issued to the shareholders of our Company (including the aforesaid offshore investment vehicles) on a pro rata basis pursuant to the [REDACTED]. As Mr. Zhang Litao is a director of Wangchen Technology and Mighty Yellow Holding Limited is a close associate of Mr. Zhang Litao, Mighty Yellow Holding Limited (being one of the aforesaid offshore investment vehicles) is a core connected person of our Company and the Shares held by it will not be counted as part of the public float for the purpose of Rule 8.08 of the Listing Rules. Save for the Shares held by Mighty Yellow Holding Limited, the Shares held by the offshore investment vehicles of the other Onshore Pre-[REDACTED] Investors will be counted as part of the public float for the purpose of Rule 8.08 of the Listing Rules.

All special rights granted to the Onshore Pre-[REDACTED] Investors had been terminated as of the Latest Practicable Date.

Background information about the existing Onshore Pre-[REDACTED] Investors

Background information of the existing Onshore Pre-[REDACTED] Investors based on the information provided by them are set out below:

Suzhou Fudebo and Mr. Zhang Litao

Suzhou Fudebo is a limited partnership established in the PRC in August 2020. As at the Latest Practicable Date, Mr. Song Yubo (宋宇博) was the general partner of Suzhou Fudebo with 2.00% partnership interest in Suzhou Fudebo, and each of Mr. Lu Yaoping (陸耀平) and Mr. Gong Peigen (龔培根) was a limited partner of Suzhou Fudebo with 49.00% and 49.00% partnership interest in Suzhou Fudebo, respectively. Mr. Song Yubo (宋宇博), Mr. Lu Yaoping (陸耀平) and Mr. Gong Peigen (龔培根) are private investors.

Mr. Zhang Litao (張栗滔) (“**Mr. Zhang**”) is the controlling shareholder of 蘇州泓融投資有限公司 (for identification only, Suzhou Hongrong Investment Development Co., Ltd.), a company established in the PRC with limited liability in March 2010 which holds direct and indirect equity investments in various enterprises in technological and communications industries in the PRC.

Mr. Zhang has been a director of Wangchen Technology since July 19, 2019 to monitor the affairs of Wangchen Technology at the board level as a passive investor of Wangchen Technology. As Mr. Zhang has not been involved in the daily management and operation of Wangchen Technology, Mr. Zhang is not a senior management of our Group.

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Mr. Zhang is also the sole director of Crystal Pleasant Holding Limited (“**Crystal Pleasant**”), the offshore investment vehicle of Suzhou Fudebo for holding its equity interest in our Company. Suzhou Fudebo nominated Mr. Zhang as the sole director of Crystal Pleasant due to (i) Mr. Zhang introduced Wangchen Technology to Suzhou Fudebo for investment in October 2020; and (ii) in view that Mr. Zhang has invested in Wangchen Technology since December 2016 and has maintained communication with Wangchen Technology since then, and thereby has a better understanding of the overall situation of Wangchen Technology, Suzhou Fudebo expects it may incur less time and communication costs on acquainting with and maintaining its relationship with Wangchen Technology as a passive investor of Wangchen Technology with Mr. Zhang’s assistance.

Nonetheless, Crystal Pleasant, being the offshore investment vehicle of Suzhou Fudebo, shall be regarded as a member of the public and the Shares held by it upon the [REDACTED] shall be regarded as being in public hands pursuant to Rule 8.24 of the Listing Rules on the following basis: (a) Crystal Pleasant will not be a substantial shareholder or a core connected person of the Company immediately upon the [REDACTED]; (b) Crystal Pleasant is wholly-owned by Suzhou Fudebo, whose partners (namely Mr. Song Yubo, Mr. Lu Yaoping and Mr. Gong Peigen) are independent third parties to the Company; (c) Mr. Zhang does not have any partnership interest in Suzhou Fudebo or any shareholding interest in Crystal Pleasant; and (d) despite the nomination of Mr. Zhang as the sole director of Crystal Pleasant by Suzhou Fudebo, any acquisition, disposal, voting or other disposition of the Shares held by Crystal Pleasant shall only be conducted with the authorization and instruction from Suzhou Fudebo.

Zhuiyuan Caifu and Longyuan Yunteng (together “Mr. Liu Investor Group”)

Zhuiyuan Caifu is a limited partnership established in the PRC in July 2015. As at the Latest Practicable Date, 北京追遠創業投資有限公司 (for identification only, Beijing Zhuiyuan Venture Investment Co., Ltd.) (“**Zhuiyuan Venture**”) was the general partner of Zhuiyuan Caifu with approximately 2.02% partnership interest in Zhuiyuan Caifu, and each of (1) 北京中關村創業投資發展有限公司 (for identification only, Beijing Zhongguancun Venture Capital Development Co., Ltd.), (2) Jiang Xun (姜迅), (3) 北京紫荊華融股權投資有限公司 (for identification only, Beijing Zijing Huarong Equity Investment Co., Ltd.), (4) 寧波梅山保稅港區領慧投資合夥企業(有限合夥) (for identification only, Ningbo Meishan Bonded Port Area Linghui Investment Partnership (Limited Partnership)), (5) 北京品素熙傾投資中心(有限合夥) (for identification only, Beijing Pinwenxuqing Investment Center (Limited Partnership)), (6) 天津星富源智科技合夥企業(有限合夥) (for identification only, Tianjin Xingfuyuanzhi Technology Partnership (Limited Partnership)), (7) Yao Bizheng (姚必正), (8) Yin Taiyang (尹太陽), (9) Wu Xiaomin (吳霄敏), (10) Wang Jun (王軍), (11) 遼寧北國文化投資股份有限公司 (for identification only, Liaoning Northern Nation Culture Investment Co., Ltd.), (12) Liu Fu (劉福), (13) Yu Huiyong (余惠勇), (14) Liu Yang (劉楊), (15) Zhang Yong (張勇), (16) Le Luping (樂露萍) and (17) Liu Shurong (劉淑榮) was a limited partner of Zhuiyuan Caifu with approximately (1) 34.68%, (2) 11.56%, (3) 11.56%, (4) 8.67%, (5) 5.78%, (6) 4.62%, (7) 2.89%, (8) 2.89%, (9) 2.89%, (10) 2.89%, (11) 2.89%, (12) 1.73%, (13) 1.45%, (14) 1.45%, (15) 0.87%, (16) 0.58% and (17) 0.58% partnership interest in Zhuiyuan Caifu, respectively. Beijing Zhongguancun Venture Capital Development Co., Ltd. is ultimately controlled by 北京市人民政府國有資產監督管理委員會 (State-owned Assets Supervision and Administration Commission of People’s Government of Beijing Municipality). Liaoning Northern Nation Culture Investment Co., Ltd. is listed and quoted for trading on The National Equities Exchange and Quotations (全國中小企業股份轉讓系統) (stock code: 832647). All other limited partners of Zhuiyuan Caifu are private investors.

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Zhuiyuan Venture is a company established in the PRC with limited liability in April 2015. As at the Latest Practicable Date, Zhuiyuan Venture was owned as to (1) 37.00%, (2) 30.00%, (3) 18.00%, (4) 10.00% and (5) 5.00% by (1) Mr. Liu Chengmin (劉成敏) (“**Mr. Liu**”), (2) Ms. Wang Lixia (王麗霞), (3) Mr. Song Fei (宋飛), (4) Mr. Ma Ming (馬明) and (5) Mr. Gao Bo (高波), respectively. All shareholders of Zhuiyuan Venture are private investors. Zhuiyuan Venture is controlled by Mr. Liu, an Independent Third Party and the general partner of Longyuan Yunteng. Mr. Song Fei (宋飛), who owns 18.00% equity interest in Zhuiyuan Venture as of the Latest Practicable Date, is also a director of Wangchen Technology but he has not been involved in the daily management and operation of Wangchen Technology. Mr. Song Fei is a private investor focusing on software, information technology and application service industries and a director of Zhuiyuan Venture who is responsible for managing the investment projects of Zhuiyuan Venture. He was nominated by Zhuiyuan Caifu as an investor representative to the board of directors of Wangchen Technology for the purpose of supervising and overseeing its investment in Wangchen Technology as a passive investor and acted as the contact person between Zhuiyuan Caifu and Wangchen Technology. The funds managed by Zhuiyuan Venture has a focus on investees in various innovative fields such as the internet, internet-of-things, integrated circuit, advanced manufacturing, advanced material and new energy, etc.

Longyuan Yunteng is a limited partnership established in the PRC in May 2014. As at the Latest Practicable Date, Mr. Liu was the general partner of Longyuan Yunteng with approximately 22.94% partnership interest in Longyuan Yunteng, and each of (1) 昆山龍石投資中心(有限合夥) (for identification only, Kunshan Longshi Investment Center (Limited Partnership)), (2) 北京百度網訊科技有限公司 (for identification only, Beijing Baidu Netcom Science Technology Co., Ltd.), (3) Mr. He Honghui (何宏輝), (4) 晉商財富投資控股有限公司 (for identification only, Jinshang Wealth Investment Holdings Co., Ltd.), (5) 遼寧津享逸投資發展有限公司 (for identification only, Liaoning Jinxiangyi Investment Development Co., Ltd.), (6) Liaoning Northern Nation Culture Investment Co., Ltd. and (7) 北京中清龍圖網絡技術有限公司 (for identification only, Beijing Zhongqing Longtu Network Technology Co., Ltd.) was a limited partner of Longyuan Yunteng with approximately (1) 18.35%, (2) 14.68%, (3) 11.01%, (4) 11.01%, (5) 11.01%, (6) 5.50% and (7) 5.50% partnership interest in Longyuan Yunteng, respectively. Kunshan Longshi Investment Center (Limited Partnership) is ultimately controlled by Liu Yan (劉燕). Beijing Baidu Netcom Science Technology Co., Ltd. is ultimately controlled by Baidu, Inc., a company primary listed on Nasdaq Global Select Market (ticker symbol: BIDU) and secondary listed on the Stock Exchange (stock code: 9888). Liaoning Northern Nation Culture Investment Co., Ltd. is listed and quoted for trading on The National Equities Exchange and Quotations (全國中小企業股份轉讓系統) (stock code: 832647). Beijing Zhongqing Longtu Network Technology Co., Ltd. is a mobile game developer and publisher established in the PRC and is ultimately controlled by Yang Shenghui (楊聖輝). All other limited partners of Longyuan Yunteng are private investors.

As of the Latest Practicable Date, Mr. Liu also holds (i) 1.56% equity interest in Chuangxingu, one of the Original Shareholders and (ii) approximately 15.38% equity interest in Longyuan Tianqi, one of the Original Shareholders.

Yashang Mobeier, Yashang Nuohui and Yashang Yueke (together “Yashang Investor Group”)

Yashang Mobeier, Yashang Nuohui and Yashang Yueke are funds marketed under the “亞商資本 ABC Capital” brand.

Yashang Mobeier is a limited partnership established in the PRC in July 2014. As at the Latest Practicable Date, 上海亞商財富投資管理有限公司 (for identification only, Shanghai Yashang Wealth Investment Management Co., Ltd.) (“**Yashang Wealth Management**”) was the general

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partner of Yashang Mobeier with 1.25% partnership interest in Yashang Mobeier, and each of (1) Ying Jue (應珏), (2) 上海成茂聚業投資合夥企業(有限合夥) (for identification only, Shanghai Chengmao Juye Investment Partnership (Limited Partnership)), (3) 上海新昌和豐投資有限公司 (for identification only, Shanghai Xinchang Hefeng Investment Co., Ltd.), (4) 上海亞商發展集團有限公司 (for identification only, Shanghai Yashang Development Group Co., Ltd.), (5) Shi Lin (石林), (6) You Fenge (尤鳳娥), (7) Zhou Jiabin (周家彬), (8) Zhang Jingjing (張靜靜), (9) 上海佳乘實業有限公司 (for identification only, Shanghai Jiacheng Industrial Co., Ltd.), (10) Yuan Ming (袁鳴), (11) He Zhiguang (何志光), (12) Ding Cheng (丁承), (13) Yan Borong (嚴伯榮), (14) Gu Jiawang (谷嘉旺), (15) Li Xunlei (李迅雷), (16) Li Songxue (李誦雪) was a limited partner of Yashang Mobeier with (1) 16.25%, (2) 12.50%, (3) 12.50%, (4) 10.00%, (5) 7.50%, (6) 7.50%, (7) 5.00%, (8) 5.00%, (9) 5.00%, (10) 2.50%, (11) 2.50%, (12) 2.50%, (13) 2.50%, (14) 2.50%, (15) 2.50% and (16) 2.50% partnership interest in Yashang Mobeier, respectively. All limited partners of Yashang Mobeier are private investors.

Yashang Mobeier is a fund managed by Yashang Wealth Management with a focus on early investment in the entertainment and culture industries. Yashang Wealth Management is a company established in the PRC with limited liability in March 2015 and is ultimately controlled by Mr. Chen Qiwei (陳琦偉), an Independent Third Party.

Yashang Yueke is a limited partnership established in the PRC in January 2016. As at the Latest Practicable Date, 前海亞商粵科投資管理(深圳)有限公司 (for identification only, Qianhai Yashang Yueke Investment Management (Shenzhen) Co., Ltd.) (“**Qianhai Yashang**”) was the general partner of Yashang Yueke with approximately 2.86% partnership interest in Yashang Yueke, and each of 上海亞商因耐投資中心(有限合夥) (for identification only, Shanghai Yashang Yinnai Investment Center (Limited Partnership)) and 廣東省粵科創新創業投資母基金有限公司 (for identification only, Guangdong Yueke Innovation and Venture Capital Fund Co., Ltd.) was a limited partner of Yashang Yueke with approximately 82.86% and 14.28% partnership interest in Yashang Yueke, respectively. Guangdong Yueke Innovation and Venture Capital Fund Co., Ltd. is ultimately controlled by China Merchants Bank Co., Ltd., a company established in the PRC whose A shares were listed on Shanghai Stock Exchange (stock code: 600036) and H shares were listed on the Stock Exchange (stock code: 3968) and Shanghai Yashang Yinnai Investment Center (Limited Partnership) is a private investor. 上海亞商股權投資管理有限公司 (for identification only, Shanghai Yashang Equity Investment Management Co., Ltd.) is the general partner of Shanghai Yashang Yinnai Investment Center (Limited Partnership) with approximately 0.86% partnership interest in Shanghai Yashang Yinnai Investment Center (Limited Partnership), and each of 深圳市榮高匯創業投資有限公司 (for identification only, Shenzhen Ronggaohui Venture Capital Co., Ltd.), 寧波嘉源信德創業投資有限公司 (for identification only, Ningbo Jiayuan Xinde Venture Capital Co., Ltd.) and 中山市長青新產業有限公司 (for identification only, Zhongshan Changqing New Industry Co., Ltd.) is a limited partner of Shanghai Yashang Yinnai Investment Center (Limited Partnership) with approximately 51.72%, 25.86% and 21.55% partnership interest in Shanghai Yashang Yinnai Investment Center (Limited Partnership), respectively. Shanghai Yashang Equity Investment Management Co., Ltd. is ultimately controlled by Mr. Chen Qiwei (陳琦偉).

Yashang Yueke is a fund managed by Qianhai Yashang and principally engages in private equity investment, with a focus on TMT (technology, media and telecommunications) and consumption fields. Qianhai Yashang is a company established in the PRC with limited liability in September 2015 and is ultimately controlled by Mr. Chen Qiwei (陳琦偉).

Yashang Nuohui is a limited partnership established in the PRC in August 2017. As at the Latest Practicable Date, 深圳亞商諾輝股權投資管理有限公司 (for identification only, Shenzhen Yashang Nuohui Equity Investment Management Co., Ltd.) (“**Yashang Investment Management**”)

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was the general partner of Yashang Nuohui with approximately 3.03% partnership interest in Yashang Nuohui, and each of (1) 深圳諾輝長實創投合夥企業(有限合夥) (for identification only, Shenzhen Nuohui Changshi Venture Capital Partnership (Limited Partnership)), (2) 深圳市引導基金投資有限公司 (for identification only, Shenzhen Guiding Fund Investment Co., Ltd.), (3) 深圳市福田引導基金投資有限公司 (for identification only, Shenzhen Futian Guiding Fund Investment Co., Ltd.) and (4) 寧波嘉源信德創業投資有限公司 (for identification only, Ningbo Jiayuan Xinde Venture Capital Co., Ltd.) was a limited partner of Yashang Nuohui with approximately (1) 43.42%, (2) 35.00%, (3) 14.00% and (4) 4.55% partnership interest in Yashang Nuohui, respectively. Shenzhen Nuohui Changshi Venture Capital Partnership (Limited Partnership) and Ningbo Jiayuan Xinde Venture Capital Co., Ltd. are private investors while Shenzhen Guiding Fund Investment Co., Ltd. and Shenzhen Futian Guiding Fund Investment Co., Ltd. are ultimately controlled by the Shenzhen municipal government. Wang Xiaojuan (汪小娟) is the general partner of Shenzhen Nuohui Changshi Venture Capital Partnership (Limited Partnership) with approximately 0.02% partnership interest in Shenzhen Nuohui Changshi Venture Capital Partnership (Limited Partnership), and each of (1) Xu Helian (許和連), (2) Shao Zhengyi (邵正義), (3) Tang Zhengjun (唐正軍), (4) 深圳市前海昊天投資管理合夥企業(有限合夥)(for identification only, Shenzhen Qianhai Haotian Investment Management Partnership (Limited Partnership)), (5) Li Yulin (李俞霖), (6) Luo Xilan (羅細蘭), (7) Lai Minde (賴民德), (8) Li Shurong (李樹榮), (9) Liang Shihao (梁詩豪), (10) Yuan Wei (袁唯), (11) 深圳市前海益能達投資管理有限公司 (for identification only, Shenzhen Qianhai Yinengda Investment Management Co., Ltd.), (12) 深圳科創鑫華科技有限公司 (for identification only, Shenzhen Kechuang Xinhua Technology Co., Ltd.) and (13) Pan Weibo (潘偉波) was a limited partner of Shenzhen Nuohui Changshi Venture Capital Partnership (Limited Partnership) with approximately (1) 34.93%, (2) 13.97%, (3) 10.48%, (4) 6.99%, (5) 5.59%, (6) 4.89%, (7) 3.56%, (8) 3.49%, (9) 3.49%, (10) 3.49%, (11) 3.49%, (12) 3.49% and (13) 2.10% partnership interest in Shenzhen Nuohui Changshi Venture Capital Partnership (Limited Partnership), respectively.

Yashang Nuohui is a fund managed by Yashang Investment Management and principally engages in private equity fund investment, with a focus on the TMT (technology, media and telecommunications), consumption, intelligent manufacturing, new energy and semi-conductor industries. Yashang Investment Management is a company established in the PRC with limited liability in May 2017 and is ultimately controlled by 上海亞商發展集團有限公司 (for identification only, Shanghai Asia Business Development Group Co., Ltd.) (“**Shanghai ABD Group**”). Mr. Chen Qiwei (陳琦偉), an Independent Third Party, is the ultimate controlling shareholder of Shanghai ABD Group.

Pacific Mars Holding Limited, Genesis Fountain Holding Limited and Splendid Fame Holding Limited, the offshore investment vehicle of Yashang Mobeier, Yashang Nuohui and Yashang Yuke, respectively, have a common sole director, namely Mr. Guo Rui (郭銳) who is a partner (合夥人) of “亞商資本 ABC Capital”, a private equity investment platform under the Shanghai ABD Group and an Independent Third Party.

Tap4fun

Tap4fun is a joint stock limited liability company established in the PRC in March 2008 and is principally engaged in development, sales and operation of mobile games. As at the Latest Practicable Date, Tap4fun was owned as to approximately (1) 60.01%, (2) 14.63%, (3) 9.05%, (4) 5.56%, (5) 4.97%, (6) 3.32%, (7) 1.67% and (8) 0.79% by (1) Mr. Yang Xiangji (楊祥吉先生), (2) 經緯(杭州)創業投資合夥企業(有限合夥) (for identification only, Jingwei (Hangzhou) Venture Capital Partnership (Limited Partnership)), (3) 成都仁義智信投資合夥企業(有限合夥) (for identification only, Chengdu Renyi Zhixin Investment Partnership (Limited Partnership)), (4) 成都完美初心投資合

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夥企業(有限合夥) (for identification only, Chengdu Wanmei Chuxin Investment Partnership (Limited Partnership)), (5) Zhang Tongjie (張同杰), (6) Xu Zizhan (徐子瞻), (7) 成都大快樂企業管理諮詢合夥企業(有限合夥) (for identification only, Chengdu Da Kuaile Enterprise Management Consulting Partnership (Limited Partnership)) and (8) 成都小快樂企業管理諮詢合夥企業(有限合夥) (for identification only, Chengdu Xiao Kuaile Enterprise Management Consulting Partnership (Limited Partnership)), respectively. All shareholders of Tap4fun are private investors. The ultimate controlling shareholder of Tap4fun is Mr. Yang Xiangji (楊祥吉先生), an Independent Third Party.

Shenzhen Yunda and Mr. Ma Guolin (together “Mr. Ma Investor Group”)

Shenzhen Yunda is a company established in the PRC with limited liability in June 2015. As of the Latest Practicable Date, Shenzhen Yunda was owned as to (1) 50.00%, (2) 10.00%, (3) 10.00%, (4) 10.00%, (5) 10.00% and (6) 10.00% by each of (1) Mr. Ma Guolin (馬國琳) (“**Mr. Ma**”), (2) Gong Qiong (龔瓊), (3) Liu Guilin (劉桂林), (4) Sun Jingping (孫敬平), (5) Guan Zhiqiang (管志強) and (6) Fei Guixiang (費桂香), respectively. All shareholders of Shenzhen Yunda are private investors. Shenzhen Yunda is controlled by Mr. Ma, one of the Pre-[REDACTED] Investors. Shenzhen Yunda principally engages in holding its equity investment in Wangchen Technology and Chuangzhen Shijie.

Mr. Ma is an investor who holds direct and indirect equity investments in various information technology enterprises in the PRC.

Suzhou Youshun

Suzhou Youshun is a limited partnership established in the PRC in November 2016. As at the Latest Practicable Date, 南通仁順投資管理有限公司 (for identification only, Nantong Renshun Investment Management Co., Ltd.) (“**Nantong Renshun**”) was the general partner of Suzhou Youshun with approximately 0.59% partnership interest in Suzhou Youshun, and each of (1) 蘇州天利投資有限公司 (for identification only, Suzhou Tianli Investment Co., Ltd.), (2) Zheng Heng (鄭衡), (3) Chen Dan (陳丹), (4) Ouyang Yufen (歐陽玉芬), (5) Wen Xinju (文馨菊), (6) Lin Fan (林凡), (7) Du Xuan (杜煊), (8) Zhu Changwei (朱長偉), (9) 福建昆沐商貿有限公司 (for identification only, Fujian Kunmu Trading Co., Ltd.), (10) Ding Cheng (丁承), (11) Liu Ning (劉寧) and (12) Liu Yidong (劉億東) was a limited partner of Suzhou Youshun with approximately (1) 49.41%, (2) 14.71%, (3) 5.88%, (4) 5.88%, (5) 5.88%, (6) 4.41%, (7) 2.94%, (8) 2.94%, (9) 2.94%, (10) 1.47%, (11) 1.47% and (12) 1.47% partnership interest in Suzhou Youshun, respectively. Suzhou Tianli Investment Co., Ltd. is a subsidiary of 天順風能(蘇州)股份有限公司 (Titan Wind Energy (Suzhou) Co., Ltd.), a company established in the PRC whose shares were listed on Shenzhen Stock Exchange (stock code: 2531). All other limited partners of Suzhou Youshun are private investors.

Nantong Renshun is a company established in the PRC with limited liability in August 2016 and is controlled by Mr. Ding Cheng (丁承) (“**Mr. Ding**”), an Independent Third Party. Suzhou Youshun is a fund managed by Nantong Renshun with a focus on industries such as new energy, consumption and TMT.

As of the Latest Practicable Date, Mr. Ding also holds 2.50% equity interest in Yashang Mobeier, one of the Onshore Pre-[REDACTED] Investors.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Jiadao Gongcheng

Jiadao Gongcheng is a limited partnership established in the PRC in November 2014, the general partner of which is 深圳嘉道谷投資管理有限公司 (for identification only, Shenzhen Jiadaogu Investment Management Co., Ltd.) (“**Jiadaogu**”).

Jiadaogu is a company established in the PRC with limited liability in October 2014 and whose general manager is Mr. Gong Hongjia (龔虹嘉), an Independent Third Party. Jiadao Gongcheng is a private equity fund managed by Jiadaogu and is ultimately beneficially owned by Ms. Chen Chunmei (陳春梅), the spouse of Mr. Gong Hongjia who is a renowned angel investor in the PRC. As at December 31, 2021, significant investment areas of Jiadao Gongcheng included environmental protection and modern agricultural industries, big health and biopharmaceuticals education and innovative technologies.

Jiadao Gongcheng holds 7.00% equity interest in Chuangxingu, one of the Original Shareholders. The controlling shareholder of Chuangxingu, Mr. Gong Chuanjun (龔傳軍), is the brother of Mr. Gong Hongjia (龔虹嘉) and the brother-in-law of Ms. Chen Chunmei (陳春梅) and as of the Latest Practicable Date, holds approximately 13.33% equity interest in Jiadaogu.

To the best knowledge of our Directors, save as disclosed under the paragraphs headed “Background information about the existing Onshore Pre-[REDACTED] Investors” in this section, each of the above Onshore Pre-[REDACTED] Investors is an Independent Third Party as at the Latest Practicable Date and the Onshore Pre-[REDACTED] Investments were not financed directly or indirectly by any connected persons of our Company.

The Pre-[REDACTED] CB Subscription

On June 16, 2021, our Company, Garena Ventures, Mr. Jia, Mr. Huang, the WFOE, Wangchen Technology, Gala Technology (BVI), Gala Technology (HK) and Gala Sports HK entered into the Pre-[REDACTED] CB Subscription Agreement, pursuant to which Garena Ventures agreed to [REDACTED] for the Pre-[REDACTED] Convertible Bonds in the principal amount of HK\$[REDACTED] and the issuance of the Pre-[REDACTED] Convertible Bonds by our Company to Garena Ventures was completed on June 21, 2021. On May 31, 2022, our Company and Garena Ventures executed a supplemental deed to extend the maturity date of the Pre-[REDACTED] Convertible Bonds from June 6, 2022 to June 6, 2023.

Assuming full conversion of the Pre-[REDACTED] Convertible Bonds immediately before the [REDACTED], Garena Ventures will be issued [REDACTED] Shares, representing approximately [REDACTED] of the issued share capital of our Company immediately upon completion of the [REDACTED] and the [REDACTED] (without taking into account any Shares which may be issued upon exercise of any option which may be granted under the Share Option Scheme).

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

The following table summarizes the key terms of the pre-[REDACTED] investment made by Garena Ventures in our Company by way of the Pre-[REDACTED] CB Subscription.

Investor	Garena Ventures
Date of the Pre-[REDACTED] CB Subscription Agreement	June 16, 2021
Amount of investment	HK\$77,112,000
Settlement date of investment amount	June 21, 2021
Investment cost per Share (Note 1)	approximately HK\$[REDACTED]
Discount to the [REDACTED] (Note 2)	[REDACTED]
Use of [REDACTED]	<p>The [REDACTED] from the Pre-[REDACTED] CB Subscription may be used for research and development expenditure for existing and new games.</p> <p>As at the Latest Practicable Date, the [REDACTED] from the Pre-[REDACTED] CB Subscription had been fully utilized for the aforesaid purpose.</p>
Benefits from the Pre-[REDACTED] CB Subscription	<p>Our Directors believe that Garena Ventures will bring strategic benefits to our Group by providing potential cooperation in the development, publishing and operations of mobile games, especially in Southeast Asia, Taiwan and Latin America markets. Our Directors also consider that by introducing Garena Ventures as a strategic investor, our Company would benefit from the insights and industry experience of the ultimate holding company of Garena Ventures.</p>
Approximate shareholding in our Company immediately upon [REDACTED] (Note 1)	[REDACTED]

Notes:

1. Based on a total of [REDACTED] Shares, being the aggregate number of Shares held by Garena Ventures immediately upon completion of the [REDACTED] and the [REDACTED] and at a conversion price of HK\$[REDACTED] per Share (without taking into account any Shares which may be allotted and issued upon any exercise of any option that may be granted under the Share Option Scheme, assuming that there is no adjustment to the conversion price and assuming full conversion of the Pre-[REDACTED] Convertible Bonds).
2. Based on the [REDACTED] of HK\$[REDACTED] per Share (being the mid-point of the indicative [REDACTED] range).

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Garena Ventures is a company incorporated in Singapore with limited liability and is principally engaged in investment holding. Garena Ventures is wholly-owned by Sea Limited, a company listed on the New York Stock Exchange (ticker symbol: SE) and a leading global consumer internet company founded in Singapore. Sea Limited and its subsidiaries (the “**Sea Group**”) operates three core businesses across digital entertainment, e-commerce, as well as digital payments and financial services, known as Garena, Shopee, and SeaMoney, respectively. Garena is a leading global online games developer and publisher. Shopee is the largest pan-regional e-commerce platform in Southeast Asia and Taiwan. SeaMoney is a leading digital payments and financial services provider in Southeast Asia. As disclosed in the “Business” section of this document, we have established a strategic partnership with Garena, pursuant to which, we believe Garena can serve as a solid foundation for our global expansion in the overseas market. To the best knowledge of our Directors, save as disclosed in the “Business” section of this document, the Sea Group does not have any other relationship, whether present or past, with our Group, our Shareholders, our Directors, the senior management of our Group, any connected persons of our Company and any of their respective associates and the Sea Group had been Independent Third Parties before its investment in our Group. The Pre-[REDACTED] CB Subscription by Garena Ventures as stated above was not financed directly or indirectly by any connected persons of our Company.

To the best knowledge of our Directors, the terms of the Pre-[REDACTED] Convertible Bonds were arrived at after arm’s length negotiation between our Company and Garena Ventures. The following table sets forth a summary of the material terms of the Pre-[REDACTED] Convertible Bonds:

Issuer	Our Company
Subscriber	Garena Ventures
Issuance date of the Pre-[REDACTED] Convertible Bonds	June 21, 2021
Principal amount	HK\$77,112,000
Conversion price	HK\$[REDACTED] per Share (the “ Conversion Price ”), subject to adjustment for consolidation, sub-division, capitalization issue and issuance of new Shares at a price less than the Conversion Price (excluding, among others, any issuance of Shares pursuant to the [REDACTED] and the [REDACTED]).
Interest rate	The Pre-[REDACTED] Convertible Bonds are not interest bearing if the conversion takes place before the Maturity Date. The Pre-[REDACTED] Convertible Bonds shall bear a simple interest computed at a rate of 5% per annum (on the basis of a 365-day year and the actual number of days elapsed), commencing on the issuance date of the Pre-[REDACTED] Convertible Bonds and until the full payment of the principal amount and payable at maturity or redemption of the Pre-[REDACTED] Convertible Bonds.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Maturity date

June 6, 2023, or if such date is not a business day, the business day immediately preceding such date (or such later date as may be agreed between our Company and Garena Ventures) (the “**Maturity Date**”).

Redemption

Garena Ventures may (i) require our Company to redeem the Pre-[REDACTED] Convertible Bonds on the Maturity Date at the Redemption Amount (as defined below) in the event that our Company will not be listed on the Stock Exchange or other reputable stock exchange on or before the Maturity Date, or that the final [REDACTED] is less than the Conversion Price, or (ii) require our Company to convert the Pre-[REDACTED] Convertible Bonds into a new series of preferred shares of our Company with customary rights, preferences and privileges of the preferred shares of our Company in the event that our Company will not be [REDACTED] on the Stock Exchange or other reputable stock exchange on or before the Maturity Date.

If there is a sale or transfer of more than 50% of the voting power of our Company, or a disposition of all or substantially all of our Company’s property or business, or a merger or consolidation of our Company with or into any other entity (excluding a merger or consolidation of our Company with its wholly owned subsidiary and a merger of our Company effected exclusively for the purpose of changing the domicile of our Company) (each such event, a “**Change of Control**”), Garena Ventures may either (i) require our Company to redeem the Pre-[REDACTED] Convertible Bonds after the occurrence of the Change of Control at the Redemption Amount (as defined below), or (ii) require our Company to convert the Pre-[REDACTED] Convertible Bonds into a new series of preferred shares of our Company with customary rights, preferences and privileges of the preferred shares of our Company.

“**Redemption Amount**” means the amount equal to the aggregate of the outstanding principal amount of and any accrued and unpaid interest on the Pre-[REDACTED] Convertible Bonds to be redeemed.

The redemption provisions above shall be terminated on the date before the [REDACTED].

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Conversion

If the final [REDACTED] is not less than the Conversion Price (for instance, being set at HK\$[REDACTED], the mid-point of the indicative [REDACTED] range, or at a higher price), all outstanding principal amount of the Pre-[REDACTED] Convertible Bonds will be automatically converted into Shares at the Conversion Price immediately prior to the [REDACTED].

Otherwise, if the final [REDACTED] is less than the Conversion Price, automatic conversion will not be triggered. Instead, conversion of the Pre-[REDACTED] Convertible Bonds will be at Garena Ventures’ discretion, and Garena Ventures may elect to convert all or part of the outstanding principal amount of the Pre-[REDACTED] Convertible Bonds at the Conversion Price prior to or after the [REDACTED] but in any event prior to the Maturity Date.

Our Directors believe that the above conversion mechanism is acceptable to Garena Ventures as Garena Ventures retains the discretion on whether or not and when to convert the Pre-[REDACTED] Convertible Bonds into Shares in the event that the final [REDACTED] is less than the Conversion Price.

Transferability

The Pre-[REDACTED] Convertible Bonds shall not be transferred without the prior written consent of our Company, except by a transfer to a wholly-owned subsidiary of, or an affiliate controlled by or under the common control of, the holder of the Pre-[REDACTED] Convertible Bonds.

Lock-up

The Shares under the Pre-[REDACTED] Convertible Bonds are subject to a lock-up period of 180 days from the [REDACTED] provided that (a) the Shares may be transferred to Garena Ventures’ wholly-owned subsidiary or affiliate on the condition that such wholly-owned Subsidiary or affiliate shall undertake to comply with such lock-up undertaking and it remains a subsidiary of Sea Limited; and (b) any transfer of shares or other securities of Sea Limited shall not be restricted.

Public float

Garena Ventures is an Independent Third Party and therefore its shareholding in our Company will be considered as part of the public float for the purposes of Rule 8.08(1)(a) of the Listing Rules.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Information right

Our Company shall deliver to the holder of the Pre-[REDACTED] Convertible Bonds financial statements, budget, business plan, forecast and other financial or other information regarding our Group’s operations, activities, finances and accounts as the holder of the Pre-[REDACTED] Convertible Bonds may require for reasonable purposes. The right under this clause shall be terminated immediately before the [REDACTED].

Pursuant to a keepwell deed dated June 16, 2021 (the “**Keepwell Deed**”) entered into among our Company, the WFOE, Wangchen Technology and Garena Ventures, the WFOE and Wangchen Technology agreed to procure that our Company will, for so long as the Pre-[REDACTED] Convertible Bonds remain outstanding, remain solvent and have sufficient liquidity to ensure timely payment by our Company of any amounts under the Pre-[REDACTED] CB Subscription Agreement, the Pre-[REDACTED] Convertible Bonds and the Keepwell Deed, and to make sufficient funds available to our Company to enable our Company to comply with such payment obligations as they fall due. The Keepwell Deed is not intended to be construed as or give rise to a guarantee or indemnity.

Save as disclosed under the paragraphs headed “The Pre-[REDACTED] CB Subscription” in this section, no special right has been granted to Garena Ventures in connection with its investments in our Group.

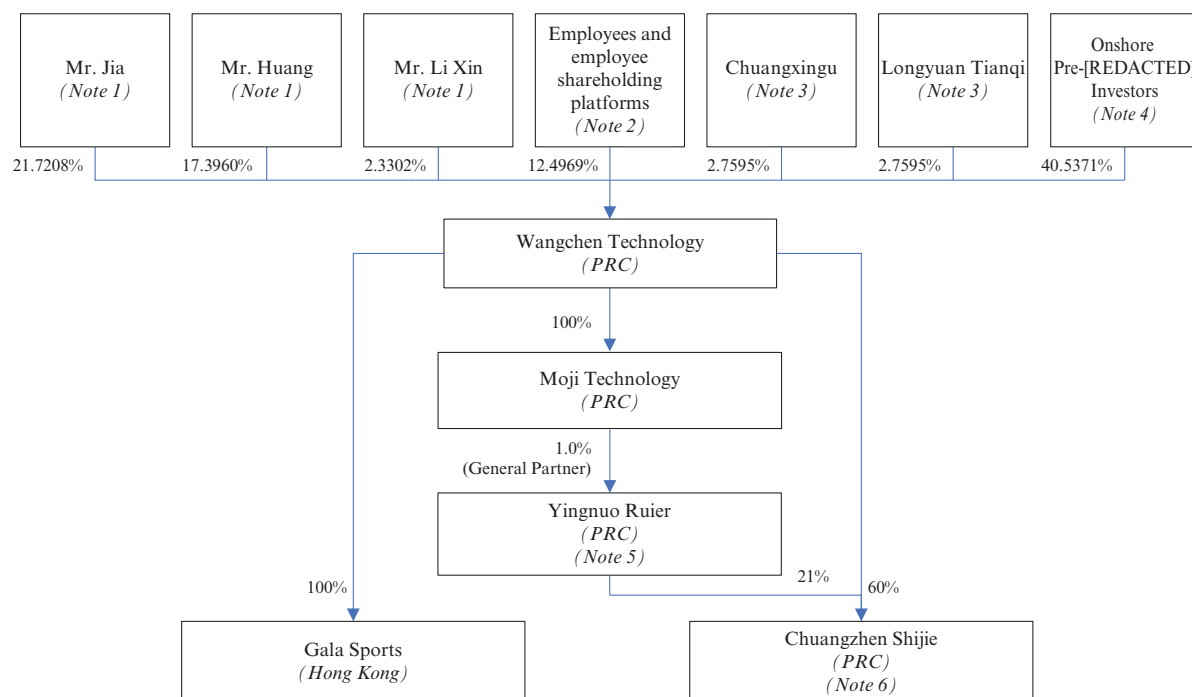
The Sole Sponsor’s Confirmation

On the basis that (i) the consideration for the Pre-[REDACTED] Investments had been settled as at the Latest Practicable Date and the consideration for the Pre-[REDACTED] Convertible Bonds was settled no less than 120 clear days before the [REDACTED], (ii) all special rights granted to the Onshore Pre-[REDACTED] Investors had been terminated as at Latest Practicable Date and (iii) no special right has been granted to Garena Ventures in connection with its [REDACTED] in our Group save for (a) the right of Garena Ventures as holder of the Pre-[REDACTED] Convertible Bonds to require our Company to redeem the Pre-[REDACTED] Convertible Bonds which has been suspended after the first submission of our Company’s [REDACTED] to the Stock Exchange and will be terminated on the date before the [REDACTED], (b) the information right of Garena Ventures as holder of the Pre-[REDACTED] Convertible Bonds which will be terminated on the date before the [REDACTED], and (c) the Keepwell Deed which is not intended to be construed as or give rise to a guarantee or indemnity, the Sole Sponsor has confirmed that the Pre-[REDACTED] Investments are in compliance with the Interim Guidance on Pre-[REDACTED] Investments (HKEX-GL29-12), the Guidance on Pre-[REDACTED] Investments (HKEX-GL43-12) and the Guidance on Pre-[REDACTED] Investments in Convertible Instruments (HKEX-GL44-12) issued by the Stock Exchange.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

REORGANIZATION

The following diagram illustrates our shareholding structure before the Reorganization:



Notes:

- Each of Mr. Jia, Mr. Huang and Mr. Li Xin is our executive Director.
- These equity interests in Wangchen Technology were held as to (i) 2.2925% by Mr. Zeng Ke, one of our senior management; (ii) 6.3123% by Wangnuo Kanpu; (iii) 2.8874% by Chengwang Investment; and (iv) 1.0047% by Wangsheng Xiluo.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

The see-through beneficial interest in Wangchen Technology through Wangnuo Kanpu, Chengwang Investment and Wangsheng Xiluo were as follows:

Platform	Attributable interest in platform	See-through beneficial interest in Wangchen Technology
Wangnuo Kanpu		
Mr. Zeng Ke (曾科)	48.6000%	3.0678%
Mr. Li Zhenyang (李臻洋)	18.6000%	1.1741%
Mr. Yin Tao (殷濤)	18.6000%	1.1741%
Mr. Tang Yiwen (湯逸文)	6.7000%	0.4229%
Mr. Yao Jialuo (姚嘉洛)	6.7000%	0.4229%
Mr. Jia	0.8000%	0.0505%
Total	100.0%	6.3123%
Chengwang Investment		
Mr. Huang	32.7869%	0.9467%
Mr. Jia	34.4262%	0.9940%
Mr. Zhao Xin (趙鑫)	32.7869%	0.9467%
Total	100.0%	2.8874%
Wangsheng Xiluo		
Mr. Jia	25.3000%	0.2542%
Ms. Wang Qinwen (王沁雯)	49.8000%	0.5003%
Mr. Huang	24.9000%	0.2502%
Total	100.0%	1.0047%

Please refer to “Our Major Subsidiaries — Wangchen Technology” above in relation to the unwinding of the share incentive arrangement in favour of Mr. Zeng Ke in September 2020, including the transfer of 48.60% partnership interest in Wangnuo Kanpu by Mr. Zeng Ke to Mr. Jia on September 4, 2020.

- Each of Chuangxing and Longyuan Tianqi is an Original Shareholder.
- These equity interests in Wangchen Technology were held as to (i) 10.1317% by the Yashang Investor Group; (ii) 8.9623% by the Mr. Liu Investor Group; (iii) 7.0755% by Yingfeng Zhihui; (iv) 4.2449% by Tap4fun; (v) 3.3302% by the Mr. Ma Investor Group; (vi) 2.5472% by Suzhou Youshun; (vii) 2.3585% by Mr. Zhang Litao; and (viii) 1.8868% by Jiadao Gongcheng.
- The remaining 99.0% partnership interest in Yingnuo Ruier was held by Wu Qing (吳慶) (an Independent Third Party other than his interest in Yingnuo Ruier and being a 3% shareholder of Chuangzhen Shijie) as limited partner.
- The remaining 19% equity interests in Chuangzhen Shijie were held as to (i) 10% by Xu Weiwei (許威威) (an Independent Third Party); (ii) 3.5% by Wang Fang (王芳) (an Independent Third Party); (iii) 3% by Wu Qing (吳慶) (an Independent Third Party other than his interest in Yingnuo Ruier and Chuangzhen Shijie); (iv) 2% by Shenzhen Yunda (one of our existing Pre-[REDACTED] Investors); and (v) 0.5% by Deng Yun (鄧贊) (an Independent Third Party).

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

In preparation for the [REDACTED], the following steps were implemented to establish our Group:

1. Incorporation of our Company

On June 12, 2018, our Company was incorporated in the Cayman Islands under the Cayman Companies Act as an exempted company with limited liability. As of the date of incorporation, the authorized share capital of our Company was HK\$380,000 divided into 38,000,000 ordinary shares of HK\$0.01 each, of which one Share was issued and allotted to an Independent Third Party at par. On the same day, the said one Share was transferred by the Independent Third Party to Great Shine at par.

On June 20, 2018, our Company issued and allotted in aggregate 49,999 Shares at par, as to (i) 9,999 Shares to Great Shine; (ii) 10,000 Shares to High Triumph; (iii) 10,000 Shares to Neo Honour; (iv) 10,000 Shares to Joyful Treasure; and (v) 10,000 Shares to Mighty Yellow. Upon completion of the issue and allotment of Shares, our Company was owned as to 20% each by Great Shine, High Triumph, Neo Honour, Joyful Treasure and Mighty Yellow.

On November 26, 2020, in connection with the unwinding of the share incentive arrangement that was made in favour of Mr. Zeng Ke (one of our senior management), our Company and Joyful Treasure (which is wholly owned by Mr. Zeng Ke) entered into a share repurchase agreement, pursuant to which our Company repurchased and cancelled 10,000 Shares held by Joyful Treasure at a consideration of HK\$100, which was determined with reference to the par value of HK\$0.01 per Share.

2. Incorporation of other offshore holding companies

Gala Technology (BVI) was incorporated in the BVI with limited liability on July 4, 2018 as the intermediate holding company of our Group in the BVI. On July 10, 2018, one share of Gala Technology (BVI) was issued and allotted to our Company fully paid at par.

Gala Technology (HK) was incorporated in Hong Kong with limited liability on August 6, 2018, as the intermediate holding company of our Group in Hong Kong. Upon its incorporation, Gala Technology (HK) had a share capital of HK\$1 and one share of Gala Technology (HK) was issued and allotted to Gala Technology (BVI) fully paid.

3. Establishment of the WFOE

The WFOE was established in the PRC with limited liability on July 30, 2019 with an initial registered capital of RMB10.0 million. On December 15, 2021, the registered capital of the WFOE increased from RMB10.0 million to RMB42.0 million. Since its establishment, the WFOE has been wholly owned by Gala Technology (HK).

4. Transfer of equity interest in Wangchen Technology by Yashang Yueke and Suzhou Youshun

For the purpose of ensuring that the registered shareholders of Wangchen Technology will comprise PRC domestic shareholders only to facilitate future renewal of its ICP License, Yashang Yueke and Suzhou Youshun transferred their entire equity interests in Wangchen Technology in the manner set out below as part of the Reorganization.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

On March 16, 2021, Yashang Yueke and Suzhou Youshun transferred 1.8868% and 2.5472% equity interests in Wangchen Technology to Mr. Jia at a consideration of RMB3,773,600 and RMB5,094,400, respectively. To enable Yashang Yueke and Suzhou Youshun to reflect their corresponding shareholding interest at our Company’s level notwithstanding that they ceased to be registered shareholders of Wangchen Technology pursuant to the Reorganization, on the same day, our Company issued a warrant to subscribe for 18,868 Shares at par and a warrant to subscribe for 25,472 Shares at par in favour of Mr. Jia, which were transferred by Mr. Jia to Yashang Yueke and Suzhou Youshun on the same day at a consideration of RMB3,773,600 and RMB5,094,400, respectively. The consideration payable by each of Mr. Jia, Yashang Yueke and Suzhou Youshun arising from the above transfers was fully set-off against the consideration receivable by each of them arising from the above transfers and no cash settlement was involved. On the same day, following the transfers between Mr. Jia, Yashang Yueke and Suzhou Youshun as described above, our Company issued a warrant to subscribe for 18,868 Shares at par (the “**Yashang Yueke Warrant**”) and a warrant to subscribe for 25,472 Shares at par (the “**Suzhou Youshun Warrant**”) in favour of Yashang Yueke and Suzhou Youshun, respectively, to replace the warrants issued in favour of Mr. Jia.

5. Entering into of the Contractual Arrangements

In order to comply with relevant PRC laws and regulations and maintain effective control over all of our operations, on May 13, 2021 and November 15, 2022, the WFOE entered into various agreements which constitute the Contractual Arrangements with our PRC Operating Entities and the Registered Shareholders, pursuant to which our Group is able to gain effective control over, and receive all economic benefits arising from the business of our PRC Operating Entities.

Please refer to the section headed “Contractual Arrangements” in this document for further details of the Contractual Arrangements.

6. Transfer of equity interest in Chuangzhen Shijie, Yingnuo Ruier and Gala Sports HK

To ensure that the Contractual Arrangements are narrowly tailored, the following intra-group transfers were effected by us:

- (a) On April 26, 2019, Wangchen Technology transferred 5% equity interest in Chuangzhen Shijie to a then senior management of our Group at a consideration of RMB1, following which Chuangzhen Shijie was converted into a sino-foreign joint enterprise. On December 3, 2019, the said ex-senior management transferred 5% equity interest in Chuangzhen Shijie to the WFOE at a consideration of RMB1. On December 10, 2019, Wangchen Technology transferred 55% equity interest in Chuangzhen Shijie to the WFOE at a consideration of RMB1. Immediately following the above transfers, Chuangzhen Shijie was owned as to 60% by the WFOE and 21% by Yingnuo Ruier.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

- (b) On May 15, 2019, Moji Technology transferred 0.5% partnership interest in Yingnuo Ruier (a limited partnership established in the PRC) to a then senior management of our Group at a consideration of RMB1. On December 2, 2019, the said ex-senior management transferred 0.5% partnership interest in Yingnuo Ruier to the WFOE at a consideration of RMB1. On December 12, 2019, Moji Technology transferred 0.5% partnership interest in Yingnuo Ruier to the WFOE at a consideration of RMB1. Immediately following such transfers, Yingnuo Ruier was owned as to 1% by the WFOE as general partner and 99% by Mr. Wu Qing (an Independent Third Party other than his interest in Yingnuo Ruier and being a 3% shareholder of Chuangzhen Shijie) as limited partner.
- (c) On May 6, 2021, Wangchen Technology transferred 10,000 shares (representing the entire issued and paid up share capital) of Gala Sports HK to Gala Technology (BVI) at a consideration of RMB3,155,880. Following such transfer, Gala Sports HK has become a direct wholly-owned subsidiary of Gala Technology (BVI).

7. Issue of Shares to certain offshore investment vehicles to substantially reflect the original beneficial shareholding in Wangchen Technology

On May 14, 2021, our Company issued and allotted a total of 960,000 Shares to the offshore investment vehicles of the beneficial owners of Wangchen Technology (including Yashang Yueke and Suzhou Youshun upon their exercise of the Yashang Yueke Warrant and the Suzhou Youshun Warrant, respectively) to substantially reflect their original beneficial shareholding in Wangchen Technology at our Company’s level.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

The table below sets out the details of the issuance and allotment of Shares:

					Number of Shares held after the issuance and allotment of Shares	Percentage shareholding in our Company immediately after the issuance and allotment of Shares
Name of offshore investment vehicle		Corresponding beneficial shareholder of Wangchen Technology (Note 1)	Number of Shares subscribed	Consideration		
Our Founders						
(1)	Great Shine	Mr. Jia	260,644	At par	270,644	27.0644%
(2)	High Triumph	Mr. Huang	182,264	At par	192,264	19.2264%
Yashang Investor Group						
(3)	Pacific Mars Holding Limited	Yashang Mobeier	42,449	At par	42,449	4.2449%
(4)	Genesis Fountain Holding Limited	Yashang Nuohui	40,000	At par	40,000	4.0000%
(5)	Splendid Fame Holding Limited	Yashang Yueke	18,868	At par	18,868	1.8868%
Sub-total of (3), (4) and (5):			101,317		101,317	10.1317%
Suzhou Fudebo and Mr. Zhang Litao						
(6)	Crystal Pleasant Holding Limited	Suzhou Fudebo	70,755	At par	70,755	7.0755%
(7)	Mighty Yellow	Mr. Zhang Litao	13,585	At par	23,585	2.3585%
Sub-total of (6) and (7):			84,340		94,340	9.4340%
Mr. Liu Investor Group						
(8)	Easy Flourish Holding Limited	Zhuiyuan Caifu	70,755	At par	70,755	7.0755%
(9)	Perfect Ranger Holding Limited	Longyuan Yunteng	18,868	At par	18,868	1.8868%
Sub-total of (8) and (9):			89,623		89,623	8.9623%
Mr. Ma Investor Group						
(10)	Absolute Bright Holding Limited	Shenzhen Yunda	28,302	At par	28,302	2.8302%
(11)	King Venture Holding Limited	Mr. Ma Guolin	5,000	At par	5,000	0.5000%
Sub-total of (10) and (11):			33,302		33,302	3.3302%
Other investors						
(12)	TAP4FUN (Hong Kong) Limited	Tap4fun	42,449	At par	42,449	4.2449%
(13)	Innovalley Investment Limited	Chuangxingu (Note 2)	27,595	At par	27,595	2.7595%
(14)	Glorious Honour Holding Limited	Longyuan Tianqi (Note 2)	27,595	At par	27,595	2.7595%
(15)	Treasure Venture Holding Limited	Suzhou Youshun	25,472	At par	25,472	2.5472%
(16)	Fine Charm Ventures Limited	Jiadao Gongcheng (Note 3)	18,868	At par	18,868	1.8868%
Senior management and employees						
(17)	Neo Honour Holding Limited	Mr. Li Xin (Note 4)	22,174	At par	32,174	3.2174%
(18)	Oasis Element Holding Limited	Mr. Li Zhenyang (Note 5)	11,741	At par	11,741	1.1741%
(19)	Wishful Profit Holding Limited	Mr. Yin Tao (Note 5)	11,741	At par	11,741	1.1741%
(20)	Angel Return Holding Limited	Mr. Zhao Xin (Note 5)	9,434	At par	9,434	0.9434%
(21)	Dawn Treasure Holding Limited	Ms. Wang Qinwen (Note 5)	5,003	At par	5,003	0.5003%
(22)	Legend Crystal Holding Limited	Mr. Yao Jialuo (Note 5)	3,219	At par	3,219	0.3219%
(23)	Perfect Fountain Holding Limited	Mr. Tang Yiwen (Note 5)	3,219	At par	3,219	0.3219%
Total			960,000		1,000,000	100%

Notes:

1. Including Suzhou Youshun and Yashang Yueke who ceased to be shareholders of Wangchen Technology and became holder of the Suzhou Youshun Warrant and the Yashang Yueke Warrant respectively. The Suzhou Youshun Warrant and the Yashang Yueke Warrant were exercised in full by Suzhou Youshun and Yashang Yueke on May 14, 2021.
2. Each of Chuangxingu and Longyuan Tianqi is an Original Shareholder.
3. Fine Charm Ventures Limited and Jiadao Gongcheng are ultimately beneficially owned by Mr. Gong Hongjia (龔虹嘉) and Ms. Chen Chunmei (陳春梅), respectively. Mr. Gong and Ms. Chen are the spouse of each other.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

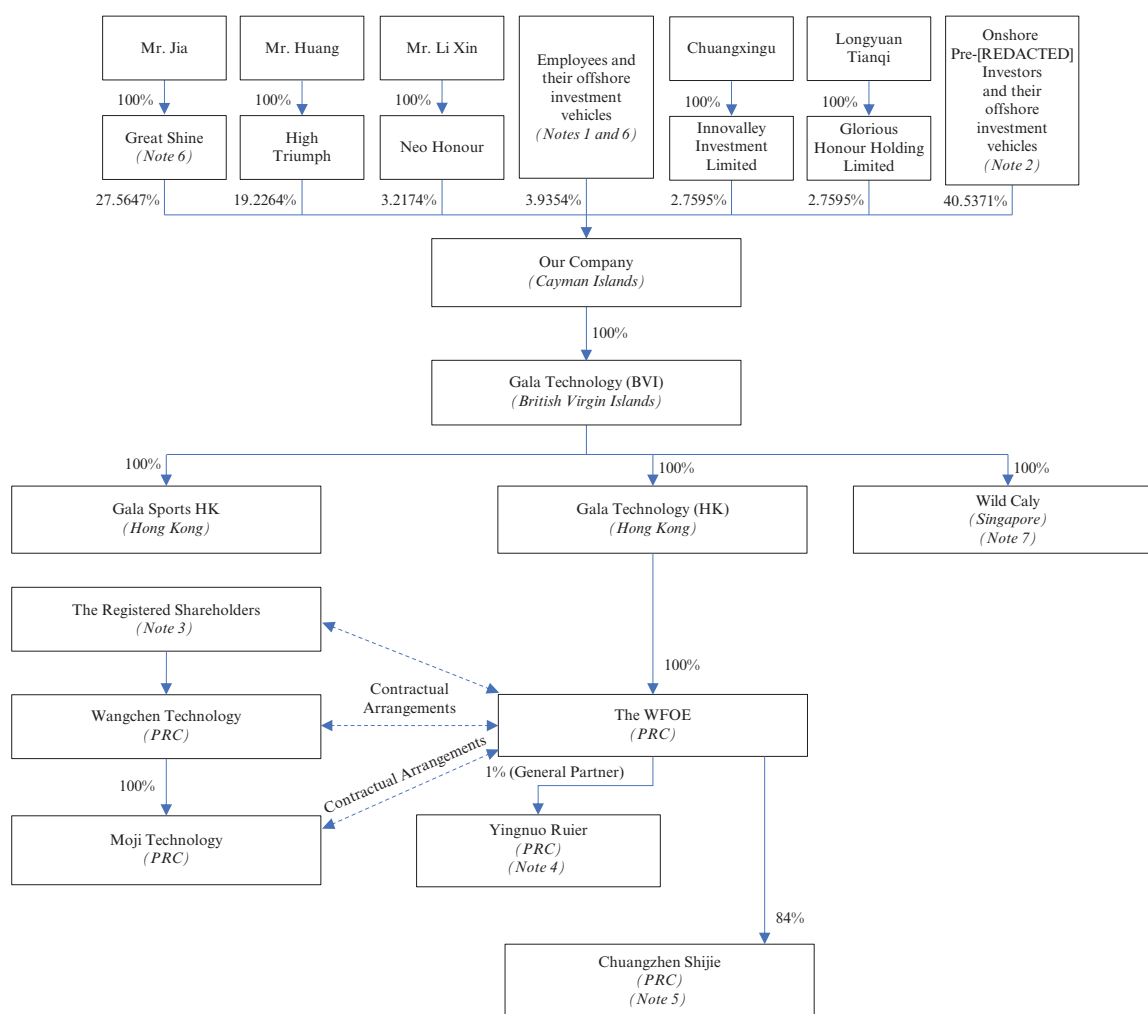
4. Mr. Li Xin is our executive Director.
5. Each of these individuals is a member of senior management, an employee or a former employee of our Group who held all or part of his/her indirect beneficial interest in Wangchen Technology through Wangnuo Kanpu, Chengwang Investment, Wangsheng Xiluo and/or Wangbo Nawu (as the case may be) prior to the Reorganization.

On the same day, our Company, each of our then Shareholders, Mr. Jia and Mr. Huang entered into a shareholders agreement (the “**Cayman Shareholders Agreement**”) to regulate their respective rights and obligations with respect to our Group prior to the [REDACTED]. No special right is granted under the Cayman Shareholders Agreement. The Cayman Shareholders Agreement will automatically terminate upon the [REDACTED].

CORPORATE AND SHAREHOLDING STRUCTURE

Our Group’s Shareholding Structure after the Reorganization

The following diagram illustrates our shareholding structure after the Reorganization but before the completion of the [REDACTED] and the [REDACTED]:



HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Notes:

1. A total of 39,354 Shares were held by our employees (other than our Directors) in our Company through their offshore investment vehicles as follows:

	Name of employee	Name of offshore investment vehicle	Number of Shares held	Percentage shareholding in our Company
a)	Mr. Li Zhenyang (李臻洋)	Oasis Element Holding Limited	11,741	1.1741%
b)	Mr. Yin Tao (殷濤)	Wishful Profit Holding Limited	11,741	1.1741%
c)	Mr. Zhao Xin (趙鑫)	Angel Return Holding Limited	9,434	0.9434%
d)	Mr. Yao Jialuo (姚嘉洛)	Legend Crystal Holding Limited	3,219	0.3219%
e)	Mr. Tang Yiwen (湯逸文)	Perfect Fountain Holding Limited	3,219	0.3219%
		Total	39,354	3.9354%

2. A total of 405,371 Shares were held by the existing Onshore Pre-[REDACTED] Investors through their offshore investment vehicles as follows:

	Name of Onshore Pre-[REDACTED] Investor	Name of offshore investment vehicle	Total number of Shares held	Total percentage shareholding in our Company
<i>Yashang Investor Group</i>				
a)	Yashang Mobeier	Pacific Mars Holding Limited	42,449	4.2449%
b)	Yashang Nuohui	Genesis Fountain Holding Limited	40,000	4.0000%
c)	Yashang Yueke	Splendid Fame Holding Limited	18,868	1.8868%
		<i>Sub-total:</i>	101,317	10.1317%
<i>Suzhou Fudebo and Mr. Zhang Litao</i>				
d)	Suzhou Fudebo	Crystal Pleasant Holding Limited	70,755	7.0755%
e)	Mr. Zhang Litao (張栗滔)	Mighty Yellow Holding Limited	23,585	2.3585%
		<i>Sub-total:</i>	94,340	9.4340%
<i>Mr. Liu Investor Group</i>				
f)	Zhuiyuan Caifu	Easy Flourish Holding Limited	70,755	7.0755%
g)	Longyuan Yunteng	Perfect Ranger Holding Limited	18,868	1.8868%
		<i>Sub-total:</i>	89,623	8.9623%
<i>Mr. Ma Investor Group</i>				
h)	Shenzhen Yunda	Absolute Bright Holding Limited	28,302	2.8302%
i)	Mr. Ma Guolin (馬國琳)	King Venture Holding Limited	5,000	0.5000%
		<i>Sub-total:</i>	33,302	3.3302%

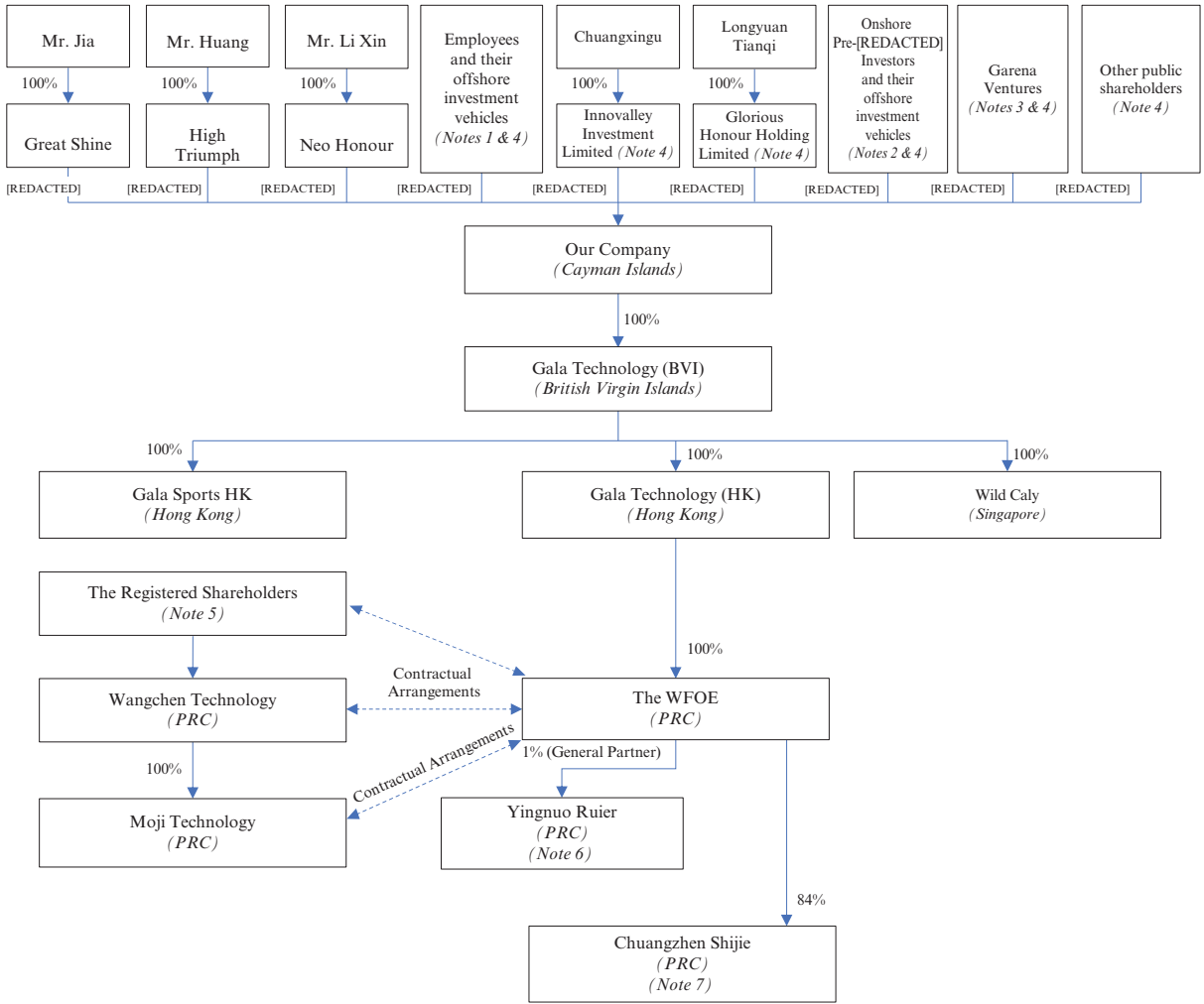
HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Name of Onshore Pre-[REDACTED] Investor		Name of offshore investment vehicle	Total number of Shares held	Total percentage shareholding in our Company
<i>Others</i>				
j)	Tap4fun	TAP4FUN (Hong Kong) Limited	42,449	4.2449%
k)	Suzhou Youshun	Treasure Venture Holding Limited	25,472	2.5472%
l)	Jiadao Gongcheng	Fine Charm Ventures Limited	18,868	1.8868%
3.	The equity interests in Wangchen Technology was held as to (i) 23.5303% by Mr. Jia; (ii) 17.3960% by Mr. Huang; (iii) 9.4340% by Suzhou Fudebo and Mr. Zhang Litao; (iv) 8.9623% by the Mr. Liu Investor Group; (v) 8.2449% by the Yashang Investor Group; (vi) 6.3123% by Wangnuo Kanpu; (vii) 4.9170% by Wangbo Nawu; (viii) 4.2449% by Tap4fun; (ix) 3.3302% by the Mr. Ma Investor Group; (x) 2.8874% by Chengwang Investment; (xi) 2.7595% by Longyuan Tianqi; (xii) 2.7595% by Chuangxingu; (xiii) 2.3302% by Mr. Li Xin; (xiv) 1.8868% by Jiadao Gongcheng; and (xv) 1.0047% by Wangsheng Xiluo.			
4.	Yingnuo Ruier is a limited partnership established in the PRC on December 5, 2016 with an initial registered capital of RMB1,000. Upon its establishment, Yingnuo Ruier was owned as to 1% by Moji Technology as general partner and 99% by Wu Qing (吳慶) (“Mr. Wu”) (an Independent Third Party other than his interest in Yingnuo Ruier) as limited partner. After the Reorganization, Yingnuo Ruier became owned as to 1% partnership interest by the WFOE as general partner and 99% partnership interest remained to be held by Mr. Wu as limited partner. The registered business scope of Yingnuo Ruier is (a) the provision of computer technical services, (b) research and development and sales of computer software and electronic products, and (c) import and export business. Yingnuo Ruier has no business activity since its establishment. Yingnuo Ruier was established for the intended purpose as an employee incentive platform to provide employees of Chuangzhen Shijie an opportunity to hold indirect beneficial ownership in Chuangzhen Shijie as share incentives. Since the operations and employees of Chuangzhen Shijie had been transferred to the WFOE after the Reorganization, Yingnuo Ruier transferred 21% equity interest in Chuangzhen Shijie to the WFOE at a nominal consideration of RMB1 on January 6, 2022 and has ceased to be a shareholder of Chuangzhen Shijie since then.			
5.	On June 9, 2021, Mr. Wu transferred 3% equity interest in Chuangzhen Shijie to the WFOE at a consideration of RMB1. On January 6, 2022, Yingnuo Ruier transferred 21% equity interest in Chuangzhen Shijie to the WFOE at a consideration of RMB1. Immediately following such transfers, the percentage equity interest in Chuangzhen Shijie held by the WFOE increased from 60% to 84%, and Yingnuo Ruier no longer held any equity interest in Chuangzhen Shijie. The remaining 16% equity interests in Chuangzhen Shijie were held as to (i) 10% by Xu Weiwei (許威威) (an Independent Third Party); (ii) 3.5% by Wang Fang (王芳) (an Independent Third Party); (iii) 2% by Shenzhen Yunda (one of our existing Pre-[REDACTED] Investors); and (iv) 0.5% by Deng Yun (鄧贊) (an Independent Third Party).			
6.	Pursuant to the share incentive arrangement between the Founders and Ms. Wang Qinwen, following her resignation as employee of our Group on June 30, 2022, Ms. Wang Qinwen (i) procured her offshore investment vehicle, Dawn Treasure Holding Limited, to transfer 5,003 Shares (representing approximately 0.5003% of the issued share capital of our Company) to Mr. Jia’s offshore investment vehicle, Great Shine, at a consideration of HK\$1 (based on nominal consideration), and (ii) transferred her 49.8% partnership interest in Wangsheng Xiluo to Mr. Jia at a consideration of RMB1 (based on nominal consideration). The above transfers were completed on July 25, 2022 and July 29, 2022, respectively.			
7.	Wild Caly was incorporated in Singapore with limited liability on August 31, 2022 with a share capital of US\$10,000 comprising 10,000 ordinary shares. Since its incorporation, Wild Caly has been wholly owned by Gala Technology (BVI), and as of the Latest Practicable Date, it had not yet commenced business operation.			

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Our Group’s Shareholding Structure after the [REDACTED]

The following chart sets forth a simplified corporate structure of our Group upon completion of the [REDACTED] and the [REDACTED] and full conversion of the Pre-[REDACTED] Convertible Bonds (without taking into account any Shares which may be issued pursuant to the exercise of any options that may be granted under the Share Option Scheme):



HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Notes:

1. A total of [REDACTED] Shares will be held by our employees (other than our Directors) in our Company through their offshore investment vehicles as follows:

Name of employee	Name of offshore investment vehicle	Number of Shares held	Percentage shareholding in our Company	Counted towards public float (Y/N)
a) Mr. Li Zhenyang (李臻洋)	Oasis Element Holding Limited	[REDACTED]	[REDACTED]	Y
b) Mr. Yin Tao (殷濤)	Wishful Profit Holding Limited	[REDACTED]	[REDACTED]	Y
c) Mr. Zhao Xin (趙鑫)	Angel Return Holding Limited	[REDACTED]	[REDACTED]	Y
d) Mr. Yao Jialuo (姚嘉洛)	Legend Crystal Holding Limited	[REDACTED]	[REDACTED]	Y
e) Mr. Tang Yiwon (湯逸文)	Perfect Fountain Holding Limited	[REDACTED]	[REDACTED]	Y
Total		<u>[REDACTED]</u>	<u>[REDACTED]</u>	

2. A total of [REDACTED] Shares will be held by the existing Onshore Pre-[REDACTED] Investors through their offshore investment vehicles as follows:

Name of Onshore Pre-[REDACTED] Investor	Name of offshore investment vehicle	Total number of Shares held	Total percentage shareholding in our Company	Counted towards public float (Y/N)
<i>Yashang Investor Group</i>				
a) Yashang Mobeier	Pacific Mars Holding Limited	[REDACTED]	[REDACTED]	Y
b) Yashang Nuohui	Genesis Fountain Holding Limited	[REDACTED]	[REDACTED]	Y
c) Yashang Yueke	Splendid Fame Holding Limited	[REDACTED]	[REDACTED]	Y
<i>Sub-total:</i>		<u>[REDACTED]</u>	<u>[REDACTED]</u>	
<i>Suzhou Fudebo and Mr. Zhang Litao</i>				
d) Suzhou Fudebo	Crystal Pleasant Holding Limited	[REDACTED]	[REDACTED]	Y
e) Mr. Zhang Litao (張栗滔)	Mighty Yellow Holding Limited	[REDACTED]	[REDACTED]	N
<i>Sub-total:</i>		<u>[REDACTED]</u>	<u>[REDACTED]</u>	
<i>Mr. Liu Investor Group</i>				
f) Zhuiyuan Caifu	Easy Flourish Holding Limited	[REDACTED]	[REDACTED]	Y
g) Longyuan Yunteng	Perfect Ranger Holding Limited	[REDACTED]	[REDACTED]	Y
<i>Sub-total:</i>		<u>[REDACTED]</u>	<u>[REDACTED]</u>	
<i>Mr. Ma Investor Group</i>				
h) Shenzhen Yunda	Absolute Bright Holding Limited	[REDACTED]	[REDACTED]	Y
i) Mr. Ma Guolin (馬國琳)	King Venture Holding Limited	[REDACTED]	[REDACTED]	Y
<i>Sub-total:</i>		<u>[REDACTED]</u>	<u>[REDACTED]</u>	

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Name of Onshore Pre-[REDACTED] Investor	Name of offshore investment vehicle	Total number of Shares held	Total percentage shareholding in our Company	Counted towards public float (Y/N)
<i>Others</i>				
j) Tap4fun	TAP4FUN (Hong Kong) Limited	[REDACTED]	[REDACTED]	Y
k) Suzhou Youshun	Treasure Venture Holding Limited	[REDACTED]	[REDACTED]	Y
l) Jiadao Gongcheng	Fine Charm Ventures Limited	[REDACTED]	[REDACTED]	Y
	<i>Sub-total:</i>	<u>[REDACTED]</u>	<u>[REDACTED]</u>	
	Total	<u>[REDACTED]</u>	<u>[REDACTED]</u>	

3. Based on full conversion of the Pre-[REDACTED] Convertible Bonds in the principal amount of HK\$[REDACTED] at the conversion price of HK\$[REDACTED] per Share into [REDACTED] Shares.
4. The Shares held by the offshore investment vehicles of our employees (other than Mr. Jia Xiaodong, Mr. Huang Xiang and Mr. Li Xin who are our Directors and are core connected persons of our Company), the offshore investment vehicles of Chuangxingu, Longyuan Tianqi and the Onshore Pre-[REDACTED] Investors (other than Mr. Zhang Litao who is a director of Wangchen Technology and is a core connected person of our Company), Garena Ventures and the subscribers of the [REDACTED] under the [REDACTED], representing in aggregate approximately [REDACTED] of the issued Shares, will be counted as part of the public float for the purpose of Rule 8.08 of the Listing Rules.
5. Please refer to Note 3 to the table under “Corporate and Shareholding Structure — Our Group’s Shareholding Structure after the Reorganization” above.
6. Please refer to Note 4 to the table under “Corporate and Shareholding Structure — Our Group’s Shareholding Structure after the Reorganization” above.
7. Please refer to Note 5 to the table under “Corporate and Shareholding Structure — Our Group’s Shareholding Structure after the Reorganization” above.

Lock-up undertakings

Each of our existing Shareholders has voluntarily undertaken that it shall not, without prior written consent of our Company and the [REDACTED], at any time during the applicable lock-up period after the [REDACTED], dispose of, nor enter into any agreement to lend, dispose of or otherwise create any options, warrants, rights, interests or encumbrances in respect of any of the Shares held by it immediately upon the [REDACTED]. The respective lock-up periods voluntarily agreed by them are as follows:

- (i) for the Largest Shareholder, namely Great Shine, a period of 12 months immediately after the [REDACTED], subject to the terms as further described in the section headed “[REDACTED] — [REDACTED] — Undertakings by our Largest Shareholder” in this document;

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

- (ii) for each of the offshore investment vehicles of our relevant Directors and employees, namely (1) High Triumph, (2) Neo Honour, (3) Perfect Fountain Holding Limited, (4) Oasis Element Holding Limited, (5) Wishful Profit Holding Limited, (6) Legend Crystal Holding Limited and (7) Angel Return Holding Limited, a period of 12 months immediately after the [REDACTED]; and
- (iii) for other existing Shareholders, namely (1) Crystal Pleasant Holding Limited, (2) Easy Flourish Holding Limited, (3) Pacific Mars Holding Limited, (4) TAP4FUN (Hong Kong) Limited, (5) Mighty Yellow, (6) Genesis Fountain Holding Limited, (7) Absolute Bright Holding Limited, (8) Innovalley Investment Limited, (9) Glorious Honour Holding Limited, (10) Treasure Venture Holding Limited, (11) Perfect Ranger Holding Limited, (12) Splendid Fame Holding Limited, (13) Fine Charm Ventures Limited and (14) King Venture Holding Limited, a period of six months immediately after the [REDACTED].

The lock-up restrictions above shall not apply to, among others, (a) any transaction entered into or consummated pursuant to a requirement of a governmental authority, regulatory body to which such Shareholder is subject to a court of law, an arbitral tribunal or a requirement of any applicable law, rules and regulations; and (b) any transfer of Shares to any individual or entity which directly or indirectly, controls or is controlled by, or is under common control with such Shareholder, provided that the transferee shall be subject to the same lock-up restrictions above.

PRC REGULATORY REQUIREMENTS

Our PRC Legal Advisers have confirmed that all necessary government approvals and permits from the relevant PRC authorities in respect of the equity transfers and changes in registered capital of the PRC Operating Entities, Chuangzhen Shijie, Yingnuo Ruier and the WFOE have been obtained, and all the relevant legal procedures were completed in compliance with the relevant PRC laws and regulations. Our PRC Legal Advisers have further advised that, we have obtained all necessary approvals from the relevant PRC authorities required for the implementation of the Reorganization.

The Rules on the Mergers and Acquisitions of Domestic Enterprises by Foreign Investors in the PRC

Pursuant to the M&A Rules, a foreign investor is required to obtain necessary approvals when (i) a foreign investor acquires equity in a domestic non-foreign invested enterprise thereby converting it into a foreign-invested enterprise, or subscribes for new equity in a domestic enterprise through an increase of registered capital thereby converting it into a foreign-invested enterprise; or (ii) a foreign investor establishes a foreign-invested enterprise which purchases and operates the assets of a domestic enterprise, or which purchases the assets of a domestic enterprise and injects those assets to establish a foreign-invested enterprise (the “**Regulated Activities**”).

Given that (i) the WFOE was established as a wholly foreign-owned enterprise by means of direct investment rather than by merger or acquisition by our Company under the M&A Rules; and (ii) no Regulated Activities were involved in the Reorganization under the M&A Rules, as advised by our PRC Legal Advisers, the establishment of WFOE and the Reorganization are not subject to the M&A Rules, and the [REDACTED] does not require approvals from the CSRC and the MOFCOM under the M&A Rules.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

SAFE Registration in the PRC

Pursuant to Circular 37 promulgated by SAFE which became effective on July 4, 2014, where the PRC individual residents conduct investment in offshore special purpose vehicles with their legitimate onshore and offshore assets or equities, they must register with local SAFE branches with respect to their investments. Circular 37 also requires the PRC residents to file changes to their registration where their offshore special purpose vehicles undergo material events such as the change of basic information including PRC residence, name and operation period, as well as capital increase or decrease, share transfer or exchange, merger or division.

Pursuant to Circular 13 promulgated by SAFE which became effective on June 1, 2015, the power to accept SAFE registration was delegated from local SAFE to local banks where the assets or interest in the domestic entity was located.

As advised by our PRC Legal Advisers, all indirect individual shareholders of our Company who are PRC residents have completed their initial registration according to Circular 37 and Circular 13.

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PRC REGULATORY BACKGROUND

Foreign investment activities in the PRC are mainly governed by the Encouraging Catalog and the Negative List, which have been promulgated and amended from time to time jointly by the MOFCOM and the NDRC. The Encouraging Catalog sets forth the industries in which foreign investment is encouraged, while the Negative List sets forth the industries in which foreign investment is restricted or prohibited. As advised by our PRC Legal Advisers, a summary of our business/operation that is subject to foreign investment restriction or prohibition in accordance with the 2021 Negative List and other applicable PRC laws and regulations is set out below (the “**Relevant Businesses**”):

Categories	Relevant Business
“Prohibited” Internet cultural business	According to the 2021 Negative List, foreign investors are prohibited from holding equity interests in any enterprise engaging in internet cultural business (except for music). According to the Internet Culture Measures, the Internet cultural business refers to the activities of providing Internet culture products and services, including producing, reproducing, importing, distributing and broadcasting Internet culture products and other activities. The principal business of Wangchen Technology and Moji Technology, which involves the publication and operation of games through mobile apps, falls within the scope of “internet cultural activities” under the Internet Culture Measures.
“Restricted” Value-added Telecommunications Services Business	According to the Telecommunications Regulations of the People’s Republic of China (《中華人民共和國電信條例》), foreign investors are not allowed to hold more than 50% equity interests in any enterprise conducting value-added telecommunication service. The principal business of Wangchen Technology and Moji Technology, which involves the publication and operation of mobile games, falls within the scope of “value-added telecommunication service”. Wangchen Technology and Moji Technology respectively holds a value-added telecommunications business operating license (within the business scope of Internet content provider) (the “ ICP License ”) for the provision of Internet contents issued by the local counterpart of MIIT in Guangdong Province.

We believe that our internet cultural business and value-added telecommunications services business are fundamental components and inseparable parts of our game publication and operation business because (i) as confirmed by our PRC Legal Advisers, publication and operation of games through mobile apps, according to the Internet Culture Measures, falls within the scope of “internet cultural activity” where foreign ownership is prohibited pursuant to the 2021 Negative List; and (ii) the value-added telecommunications services provided by the Group, along with the internet cultural business, which involves the publication and operation of mobile games, forms an integral part of our game services. Accordingly, it is impractical for the Company to separate internet cultural business and value-added telecommunication services business from its game publication and operation business and to hold the value-added telecommunications business operating license

CONTRACTUAL ARRANGEMENTS

(within the business scope of Internet content provider) (the “**ICP License**”) in a separate entity from Wangchen Technology and Moji Technology, of which the core businesses fall within “prohibited business” under the 2021 Negative List.

For further details of the limitations on foreign ownership in PRC companies conducting the above businesses under PRC laws and regulations, please see the section headed “Regulatory Overview”.

The Administrative Provisions on Foreign-Invested Telecommunications Enterprises (revised in 2016) (《外商投資電信企業管理規定》(2016年修訂)), which was promulgated by the State Council on December 11, 2001, and amended on September 10, 2008, and February 6, 2016, sets forth that foreign investors are not allowed to hold more than 50% of the equity interest in a company providing value-added telecommunications services, including Internet information services. In addition, a foreign investor who invests in a foreign-invested value-added telecommunications enterprises in the PRC must possess prior experience in, and a proven track record of, operating value-added telecommunications business overseas (the “**Qualification Requirements**”). On March 29, 2022, the Decision of the State Council on Revising and Repealing Certain Administrative Regulations (《國務院關於修改和廢止部分行政法規的決定》) (“**the Decision**”), which took effect on May 1, 2022, was promulgated to amend certain provisions of regulations including the Administrative Provisions on Foreign-Invested Telecommunications Enterprises (2016 Revision). The Qualification Requirements were removed.

Under the requirements of the Administrative Provisions on Foreign-Invested Telecommunications Enterprises (2016 Revision), according to the interview with the Shenzhen Communications Administration (深圳市通信管理局) by our PRC Legal Advisers on May 26, 2020, the Shenzhen Communications Administration confirmed that, (i) the MIIT or Shenzhen Communications Administration has not provided clear guidance on what “prior experience in operating value-added telecommunications businesses” and “proven track record of business operations overseas” in respect of the Qualification Requirement entails; (ii) they would not approve the ICP application of Wangchen Technology if it turned into a foreign-invested enterprise (with foreign investor(s) holding no more than 50% of the equity interests); and (iii) they would neither approve the renewal of Wangchen Technology’s current ICP License in case there was any foreign investor indirectly holding the equity interests of Wangchen Technology.

Nevertheless, under the latest Administrative Provisions on Foreign-Invested Telecommunications Enterprises amended in 2022, whilst foreign investors are able to invest in entities holding an ICP License (holding up to 50% equity interest and not more), whether the post-foreign-invested entity can hold an ICP License is still subject to the examination of substance and merits by the MIIT. On May 26, 2022, our PRC Legal Advisers further verbally consulted with the MIIT (through the MIIT’s official enquiry line) and was informed that it remains difficult for foreign-invested entities to obtain ICP Licences. As the Decision only became effective on May 1, 2022, and no detailed guidance or implementation measures have been issued, there remain uncertainties with respect to its future impact on us, including any specific requirements that we may need to satisfy. Therefore, as of the Latest Practicable Date, the Company may not be allowed to hold equity interest in Wangchen Technology.

CONTRACTUAL ARRANGEMENTS

Moreover, even though an ICO License is no longer required to conduct online game operation business in the PRC, the Internet Culture Measures and the Negative List remain effective and applicable to the Group. As mentioned above, the principal business of Wangchen Technology and Moji Technology involves the operation and publication of games through mobile apps, which falls within the scope of “internet cultural activities” under the Internet Culture Measures. According to the Negative List, foreign investors are prohibited from holding equity interests in any enterprise engaging in internet cultural business (except for music). We can only conduct Relevant Businesses through our PRC Operating Entities.

Given that Wangchen Technology and Moji Technology operate the foreign-prohibited business and foreign-restricted business which requires an ICP license, our Company would not be currently allowed to hold any equity interests in the PRC consolidated subsidiaries. Based on this and the advice of our PRC Legal Advisers on the PRC foreign investment restriction policies, we are of the view that the Contractual Arrangements and our corporate structure as a whole are narrowly tailored. We will closely monitor any future development relating to the Decision and will take all necessary actions to comply with applicable laws, regulations and specific requirements or guidance, including reorganizing our corporate structure, if required in the future. We will unwind and terminate the Contractual Arrangements wholly or partly once our businesses are no longer prohibited or restricted from foreign investment and to the extent permissible under PRC Laws.

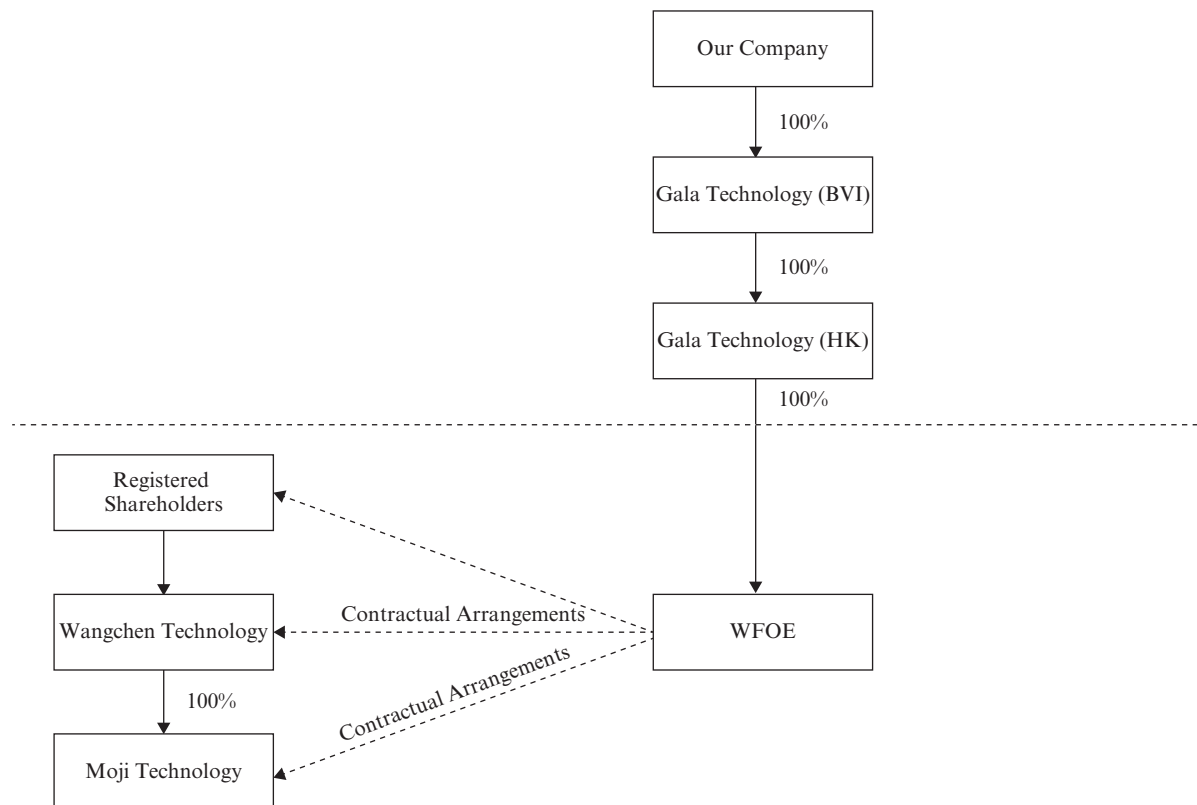
OUR CONTRACTUAL ARRANGEMENTS

Overview

Because foreign investment in certain areas of the industry in which we currently operate is subject to restrictions under current PRC laws and regulations outlined above, we have determined that it was not viable for our Company to hold our PRC Operating Entities directly through equity ownership. Instead, we have decided that, in line with common practice in industries in the PRC subject to foreign investment restrictions and prohibitions, we would gain effective control over, and receive substantially all the economic benefits generated by the businesses currently operated by our PRC Operating Entities through the Contractual Arrangements between (i) WFOE, on the one hand, and Wangchen Technology and the Registered Shareholders, on the other hand, and (ii) WFOE, on the one hand, and Moji Technology and its sole shareholder, Wangchen Technology, on the other hand. In order to comply with PRC laws and regulations while availing ourselves of international capital markets and maintaining effective control over all of our operations, we implemented the Contractual Arrangements with regards to our PRC Operating Entities.

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



Notes:

1. WFOE provides technical support, consulting services and other services in exchange for service fees from Wangchen Technology and Moji Technology. See section headed “— Our Contractual Arrangements — Exclusive Business Cooperation Agreement”.
2. The Registered Shareholders executed the exclusive option agreement in favor of WFOE, for the acquisition of all or part of the equity interests and/or assets in Wangchen Technology. Wangchen Technology executed the exclusive option agreement in favor of WFOE, for the acquisition of all or part of the equity interests and/or assets in Moji Technology. See section headed “— Our Contractual Arrangements — Exclusive Option Agreement”.
3. The Registered Shareholders executed powers of attorney in favor of WFOE, for the exercise of all shareholders’ rights in Wangchen Technology. Wangchen Technology executed powers of attorney in favor of WFOE, for the exercise of its sole shareholder’s rights in Moji Technology. See section headed “— Our Contractual Arrangements — Powers of Attorney”.
4. The Registered Shareholders granted first priority security interests in favor of WFOE, over the entire equity interests in Wangchen Technology. Wangchen Technology granted first priority security interests in favor of WFOE, over the entire equity interests in Moji Technology. See section headed “— Our Contractual Arrangements — Equity Pledge Agreement”.
5. The spouse of each of Mr. Jia, Mr. Huang, Mr. Li Xin and Mr. Ma Guolin (each being a Registered Shareholder who is an individual and has a spouse) (the “**Relevant Individual Shareholders**”) executed an undertaking in favour of WFOE, See section headed “— Our Contractual Arrangements — Spouse Undertakings”.

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6. The equity interests in Wangchen Technology was held as to approximately (i) 23.5303% by Mr. Jia; (ii) 17.3960% by Mr. Huang; (iii) 9.4340% by Suzhou Fudebo and Mr. Zhang Litao; (iv) 8.9623% by the Mr. Liu Investor Group; (v) 8.2449% by the Yashang Investor Group; (vi) 6.3123% by Wangnuo Kanpu; (vii) 4.9170% by Wangbo Nawu; (viii) 4.2449% by Tap4fun; (ix) 3.3302% by the Mr. Ma Investor Group; (x) 2.8874% by Chengwang Investment; (xi) 2.7595% by Longyuan Tianqi; (xii) 2.7595% by Chuangxingu; (xiii) 2.3302% by Mr. Li Xin; (xiv) 1.8868% by Jiadao Gongcheng; and (xv) 1.0047% by Wangsheng Xiluo as of the Latest Practicable Date.

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 Business Cooperation Agreement

Pursuant to the exclusive business cooperation agreement dated May 13, 2021 entered into between WFOE and Wangchen Technology and the exclusive business cooperation agreement dated November 15, 2022 entered into between WFOE and Moji Technology (together, the “**Exclusive Business Cooperation Agreement**”), Wangchen Technology and Moji Technology agreed to engage WFOE as its exclusive services provider, including but not limited to, technical support, development, maintenance and update of software, business management consultation, marketing and promotion services, leasing, assignment or disposal of equipment or properties, and other services. In exchange for these services, Wangchen Technology and Moji Technology shall pay a service fee, which shall consist of 100% of the total consolidated profit of Wangchen Technology and Moji Technology, after the deduction of any accumulated deficit of Wangchen Technology and Moji Technology and their affiliated entities in respect of the preceding financial year(s), operating costs, expenses, taxes and other statutory contributions.

During the term of the Exclusive Business Cooperation Agreement, WFOE enjoys all the economic benefits in relation to Wangchen Technology’s and Moji Technology’s business operation and shall not be held legally responsible for Wangchen Technology’s and Moji Technology’s debt or other obligations and risks. WFOE may provide Wangchen Technology and Moji Technology with financial assistance by way of bank entrusted loans or other loans, and enter into separate agreements where necessary.

The Exclusive Business Cooperation Agreement also provides that WFOE has the exclusive and proprietary ownership, rights and interests in all intellectual properties arising out of or created during the performance of the Exclusive Business Cooperation Agreement. In addition, without the prior written consent of WFOE, Wangchen Technology and Moji Technology shall not, during the term of the Exclusive Business Cooperation Agreement, directly or indirectly accept the same or any similar services provided by any third party which are covered by the Exclusive Business Cooperation Agreement nor shall Wangchen Technology and Moji Technology establish cooperation relationships similar to those established by the Exclusive Business Cooperation Agreements with any third party. WFOE may appoint other parties for the provision of the services under the Exclusive Business Cooperation Agreement.

The Exclusive Business Cooperation Agreement shall remain effective unless terminated (a) in accordance with the provisions of the Exclusive Business Cooperation Agreement; (b) in advance in writing by the WFOE; or (c) renewal of the business operation term of the WFOE, Wangchen Technology or Moji Technology is not approved or consented by the relevant governmental authorities, at which time the Exclusive Business Cooperation Agreement will terminate upon expiry of that business operation term.

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Exclusive Option Agreement

Pursuant to the Exclusive Option Agreement dated May 13, 2021 entered into between WFOE, Wangchen Technology and the Registered Shareholders, and the Exclusive Option Agreement dated November 15, 2022 entered into between WFOE, Moji Technology and its sole shareholder, Wangchen Technology (together, the “**Exclusive Option Agreement**”), WFOE has the irrevocable and exclusive right to purchase, or to designate one or more persons to purchase, from the Registered Shareholders all or any part of their equity interests in Wangchen Technology and from Wangchen Technology all or any part of its equity interest in Moji Technology at any time and from time to time in WFOE’s sole and absolute discretion to the extent permitted by PRC laws. The consideration shall be the lowest price as permitted under applicable PRC laws.

The Registered Shareholders, Wangchen Technology and Moji Technology, among other things, have undertaken that:

- without the prior written consent of WFOE, they shall not in any manner supplement, change or amend the articles of association, increase or decrease their registered capital, or change the structure of its registered capital in other manner; if the Registered Shareholders or Wangchen Technology increase their capital injection into Wangchen Technology or Moji Technology, respectively, the Registered Shareholders or Wangchen Technology undertake and confirm that the additional equity shall be subject to the options under the Exclusive Option Agreement;
- they shall maintain Wangchen Technology’s and Moji Technology’s corporate existence in accordance with good financial and business standards and practices, obtain and maintain all necessary government licenses and permits by prudently and effectively operating their business and handling their affairs;
- without the prior written consent of WFOE, they shall not, and shall procure its subsidiaries not to sell, transfer, mortgage or dispose of in any manner any assets, business, operation rights, legitimate interest in the income of Wangchen Technology and Moji Technology;
- without the prior written consent of WFOE, Wangchen Technology and Moji Technology shall not incur, inherit, guarantee or suffer the existence of any debt, except for payables incurred in the ordinary course of business other than through loans;
- they shall always operate all of Wangchen Technology’s and Moji Technology’s businesses during the ordinary course of business to maintain its asset value and refrain from any action or omission that may adversely affect Wangchen Technology’s and Moji Technology’s operating status and asset value;
- without the prior written consent of WFOE, they shall not cause Wangchen Technology and Moji Technology to execute any major contract except the contracts in the ordinary course of business;
- without the prior written consent of WFOE, they shall not cause Wangchen Technology and Moji Technology to provide any person with any loan or credit or any security or guarantee for indebtedness of any third party;

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- they shall provide WFOE with information on Wangchen Technology’s and Moji Technology’s business operations and financial condition at the request of WFOE;
- if requested by WFOE, they shall procure and maintain insurance in respect of Wangchen Technology’s and Moji Technology’s assets and business from an insurance carrier acceptable to WFOE, at an amount and type of coverage typical for companies that operate similar businesses;
- without the prior written consent of the WFOE, they shall not cause or permit Wangchen Technology and Moji Technology to merge, consolidate with, acquire or invest in any person;
- they shall immediately notify WFOE of the occurrence or possible occurrence of any litigation, arbitration or administrative proceedings relating to Wangchen Technology’s and Moji Technology’s assets, business or revenue;
- to maintain the ownership by Wangchen Technology and Moji Technology of all of its assets, they shall execute all necessary or appropriate documents, take all necessary or appropriate actions and file all necessary or appropriate complaints or raise necessary and appropriate defences against all claims;
- without the prior written consent of WFOE, Wangchen Technology and Moji Technology shall not in any manner distribute dividends to their shareholders, provided that upon the written request of WFOE, Wangchen Technology and Moji Technology shall immediately distribute all distributable profits to its shareholders;
- at the request of WFOE, they shall appoint any persons designated by WFOE as the directors, supervisor and senior management of Wangchen Technology and Moji Technology, and/or remove any incumbent director, supervisor and senior management of Wangchen Technology and Moji Technology, and perform all relevant resolutions and filing procedures relating thereto. WFOE has the right to demand the Registered Shareholders, Wangchen Technology and Moji Technology to make such replacement;
- without the written consent of WFOE, Wangchen Technology and Moji Technology shall not engage in any business in competition with WFOE or its affiliates;
- unless otherwise mandatorily required by PRC laws, Wangchen Technology and Moji Technology shall not be dissolved or liquidated without prior written consent by WFOE;
- in the event that the Registered Shareholders, Wangchen Technology or Moji Technology fails to comply with its tax obligations under the applicable laws that hinders the exercise of the options under the Exclusive Option Agreement by WFOE, WFOE is entitled to demand Moji Technology, Wangchen Technology or its shareholders to comply with the tax obligations; and
- Moji Technology, the Registered Shareholders and Wangchen Technology shall procure the subsidiaries of Wangchen Technology and Moji Technology to comply with the covenants applicable to Wangchen Technology and Moji Technology as prescribed in this Section where applicable, as such subsidiaries are the Wangchen Technology and Moji Technology under the relevant provisions.

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In addition, the Registered Shareholders and Wangchen Technology, among other things, have covenanted that:

- without the prior written consent of WFOE, they shall not sell, transfer, mortgage or dispose of in any other manner any legal or beneficial interest in the equity interests in Wangchen Technology held by the Registered Shareholders or Moji Technology held by Wangchen Technology or allow the encumbrance to be created thereon, except for the interest placed in accordance with the Exclusive Option Agreement, the Equity Pledge Agreement and the Powers of Attorney;
- without the prior written consent of WFOE, the Registered Shareholders and Wangchen Technology shall cause the shareholders’ meeting and/or the directors (or the executive directors) of Wangchen Technology and Moji Technology, respectively, not to approve any sale, transfer, mortgage or disposition in any other manner of any legal or beneficial interest in the equity interests in Wangchen Technology held by the Registered Shareholders, or Moji Technology held by Wangchen Technology or allow the encumbrance thereon of any security interest, except for the interest placed in accordance with the Exclusive Option Agreement, the Equity Pledge Agreement and the Powers of Attorney;
- without the prior written consent of WFOE, the Registered Shareholders and Wangchen Technology shall cause the shareholders’ meeting or the directors (or the executive director) of Wangchen Technology and Moji Technology, respectively, not to approve the merger or consolidation with any person, or the acquisition of or investment in any person;
- they shall immediately notify WFOE of the occurrence or possible occurrence of any litigation, arbitration or administrative proceedings relating to the equity interests in Wangchen Technology held by the Registered Shareholders or Moji Technology held by Wangchen Technology;
- they shall cause the shareholders’ meeting or the directors (or the executive directors) of Wangchen Technology and Moji Technology to vote in favour of the transfer of equity interests pursuant to the Exclusive Option Agreement and take any and all other actions that may be requested by WFOE;
- to the extent necessary to maintain their ownership in Wangchen Technology and Moji Technology, they shall execute all necessary or appropriate documents, take all necessary or appropriate actions, file all necessary or appropriate complaints, and raise necessary or appropriate defences against all claims;
- they shall appoint any designee of WFOE as the director and senior management of Wangchen Technology and Moji Technology, at the request of WFOE;

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- they shall not execute any document or make any commitment that may have conflicts of interest with Wangchen Technology, Moji Technology and/or its subsidiaries or WFOE and its designees in the performance of the agreement and other legal documents; or shall not cause any conflict of interest between WFOE and its shareholder by act or omission. In case of such conflict of interest (WFOE has the right to unilaterally decide whether such conflict of interest occurs), they shall take measures to eliminate it as soon as possible with the consent of WFOE or its designees. If they refuse to take measures to eliminate the conflict of interest, WFOE has the right to exercise the options under the Exclusive Option Agreement;
- they shall give consent to the execution of the exclusive option agreement, the equity interest pledge agreement and the power of attorney similar to the Exclusive Option Agreement, the Equity Pledge Agreement and the Powers of Attorney and undertake not to take any action in conflict with such documents executed by the other shareholders; with respect to the transfer of equity interest of Wangchen Technology and Moji Technology by any of the other shareholders of Wangchen Technology and Moji Technology to WFOE and/or the Designee(s) pursuant to such shareholder’s exclusive option agreement, they waive all of their right of first refusal (if any);
- they shall promptly donate any profit, interest, dividend or proceeds of liquidation to WFOE or any other person designated by WFOE to the extent permitted by the PRC law;
- they shall strictly abide by the provisions of the Exclusive Option Agreement and other contracts jointly or separately executed by and among WFOE, the Registered Shareholders, Moji Technology and Wangchen Technology, perform the obligations hereunder and thereunder, and refrain from any action or omission that may affect the effectiveness and enforceability thereof. To the extent that the Registered Shareholders or Wangchen Technology have any remaining rights with respect to the equity interests subject to the Exclusive Option Agreement or under the Equity Pledge Agreement or under the Power of Attorney, the Registered Shareholders shall not exercise such rights except in accordance with the written instructions of WFOE.

The Registered Shareholders and Wangchen Technology have also undertaken that they will donate to WFOE any consideration they receive in the event that WFOE exercises the options under the Exclusive Option Agreement to acquire the equity interests in Wangchen Technology and Moji Technology, respectively, after deducting/withholding the relevant taxes (if any) pursuant to applicable laws of China, to WFOE or the Designee(s) of WFOE for free within ten (10) days after the Registered Shareholders or Wangchen Technology, respectively, receive the consideration and pays/withholds the relevant taxes (if any).

The Exclusive Option Agreement shall remain effective unless terminated in the event that the entire equity interests held by the Registered Shareholders and Wangchen Technology in Wangchen Technology and Moji Technology, respectively, have been transferred to WFOE or its appointee(s).

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Equity Pledge Agreement

Pursuant to the equity pledge agreement dated May 13, 2021 entered into between WFOE, Wangchen Technology and the Registered Shareholders and the equity pledge agreement dated November 15, 2022 (together, the “**Equity Pledge Agreement**”), the Registered Shareholders and Wangchen Technology agreed to pledge all of their respective equity interests in Wangchen Technology and Moji Technology to WFOE as collateral security for any and all of the secured indebtedness under the Contractual Arrangements and for securing the performance of their obligations under the Contractual Arrangements. During the pledge period, WFOE is entitled to receive any dividends or other distributable benefits arising from the equity interests in Wangchen Technology and Moji Technology.

The pledge in favour of WFOE takes effect upon the completion of registration with the relevant administration for industry and commerce and shall remain valid until after all the contractual obligations of the Registered Shareholders, Moji Technology and Wangchen Technology under the Contractual Arrangements have been fully performed and all the secured indebtedness under the Contractual Arrangements have been fully paid.

Upon the occurrence of an event of default (as stipulated in the Equity Pledge Agreement) and unless it is successfully resolved to WFOE’s satisfaction within 20 days after WFOE delivers a notice to the Registered Shareholders, Wangchen Technology and/or Moji Technology requesting rectification of such event of default, WFOE shall have the right to require the Registered Shareholders and/or Wangchen Technology to immediately pay all outstanding amounts due under the Contractual Arrangements and/or dispose of the pledged equity interest to repay any outstanding amounts due to WFOE.

As of the Latest Practicable Date, the pledges under the Equity Pledge Agreement have been registered.

Powers of Attorney

The Registered Shareholders have executed powers of attorney dated May 13, 2021 and Wangchen Technology has executed power of attorney dated November 15, 2022 (together, the “**Power of Attorney**”), pursuant to which the Registered Shareholders and Wangchen Technology irrevocably appointed WFOE and its appointees (including but not limited to the directors of WFOE and their successors and liquidators replacing the directors but excluding those non-independent or who may give rise to conflict of interests) as their exclusive agents and attorneys-in-fact to act on their behalf on all matters concerning Wangchen Technology and Moji Technology and to exercise all of their respective rights as a registered shareholder of Wangchen Technology and Moji Technology in accordance with the PRC laws and the articles of association. These rights include the rights (i) to propose, convene and attend shareholders’ meetings; (ii) to receive any notice of the convening the shareholder’s meeting and related discussion procedure; (iii) to represent the Registered Shareholders and Wangchen Technology in executing and delivering any written resolution as a shareholder; (iv) to vote on any matters discussed in the shareholders’ meetings (including but not limited to the sale, transfer, mortgage, pledge or disposal of any or all assets) personally or by proxy; (v) to sell, transfer, pledge or otherwise dispose of any or all equity interests; (vi) to nominate, elect, designate or appoint and remove the legal representative, directors, general manager, chief financial officer, supervisors and other senior officers; (vii) to supervise the operating performance, approve annual budget or declare dividends, and inspect financial information at any time; (viii) to represent a shareholder to execute and deliver any written resolutions and minutes; (ix) to approve to submit any registration documents to competent government authorities; (x) to

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represent the shareholders to exercise voting rights with regards to the liquidation matters; (xi) in the event of dissolution or liquidation, firstly, WFOE and/or its authorized person is entitled to all the shareholder's rights, including but not limited to making resolutions on any dissolution or liquidation, appointing and delegating members of the liquidation group and/or their proxy, approving liquidation plan and liquidation report; secondly, the Registered Shareholders and Wangchen Technology agree to transfer total assets that the Registered Shareholders and Wangchen Technology should acquire and have acquired as a shareholder during corporate dissolution and liquidation to WFOE or its designated person without consideration, and direct the liquidation group to directly deliver the assets aforementioned to WFOE and/or its designated person; thirdly, in case the aforementioned transfer shall include consideration under the then applicable PRC laws, apart from transfer with consideration and direct delivery of the assets, the Registered Shareholders and Wangchen Technology further agree to return the consideration in full amount to WFOE and/or its designated person in an appropriate way to ensure that WFOE and/or its designated person would not suffer any losses; (xii) when the directors or managers of Wangchen Technology or Moji Technology act in manner harming the interests of Wangchen Technology, Moji Technology or its shareholders, to file a lawsuit against such directors or managers as a shareholder or take other legal actions; (xiii) to approve amendments to the articles of association; and (xiv) to exercise any other rights vested in the shareholder by the articles of association or relevant laws and regulations.

Each of the Registered Shareholders and Wangchen Technology has undertaken that he/she/it will not undertake any action in violation of the purpose or intent of the Contractual Arrangements and Power of Attorney, and will refrain from any action or omission that may cause any conflict of interest between WFOE and Wangchen Technology, Moji Technology or its subsidiaries. Each of the Registered Shareholders and Wangchen Technology has further undertaken that, without the prior written consent of WFOE, he/she/it will not use any information obtained from Wangchen Technology or Moji Technology to engage in any business which competes or potentially competes with Wangchen Technology, Moji Technology or its affiliates.

The Powers of Attorney executed by the Registered Shareholders shall be irrevocable and remain effective for so long as each Registered Shareholder holds equity interest in Wangchen Technology. The Power of Attorney executed by Wangchen Technology shall be irrevocable and remain effective for so long as Wangchen Technology holds equity interest in Moji Technology.

Confirmations from the Relevant Individual Shareholders

Each of the Relevant Individual Shareholders has confirmed to the effect that (i) his/her spouse is aware of the Exclusive Option Agreement, the Equity Interest Pledge Agreement and the Power of Attorney; (ii) his Shareholding is his personal property and does not have constitute joint property; (iii) his spouse agrees that he has the right to claim any interests handle his shareholding at his sole discretion without consent of his spouse and to enjoy the rights and perform the obligations under the Exclusive Option Agreement, the Equity Interest Pledge Agreement and the Power of Attorney by himself. If his spouse and he get divorced, the equity interest in the Domestic Company held by him is his personal property and does not constitute the joint property of his spouse and him, and he will take measures to ensure the performance of the Exclusive Option Agreement, the Equity Interest Pledge Agreement and the Power of Attorney and will not take any actions in violation of the Exclusive Option Agreement, the Equity Interest Pledge Agreement and the Power of Attorney; and (iv) in the event of his/her death, incapacity or any other event which causes his/her inability to exercise his shareholder's rights in Wangchen Technology, his successors will inherit all his rights and obligations under this Power of Attorney.

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Spouse Undertakings

The spouse of each of the Relevant Individual Shareholders, where applicable, has signed an undertaking dated May 13, 2021 (the “**Spouse Undertakings**”) to the effect that (i) the respective Relevant Individual Shareholder’s interests in the respective Registered Shareholder (together with any other interests therein) do not fall within the scope of communal properties, (ii) he/she has no right to or control over such interests of the respective Relevant Individual Shareholder and will not have any claim on such interests; (iii) confirms that the respective spouse may further amend or terminate the Contractual Arrangements without the need for authorization or consent by him/her; and (iv) if he/she is transferred any shares held by their spouse for any reason, he/she will be bound by the Contractual Arrangements and will observe obligations as a shareholder of the Wangchen Technology, and will sign all necessary documents and to take all necessary actions to ensure the Contractual Arrangements are properly preformed.

Other Key Terms under the Contractual Arrangements

Dispute Resolution

Each of the agreements under the Contractual Arrangements contains a dispute resolution provision. Pursuant to such provision, in the event of any dispute arising from the performance of or relating to the Contractual Arrangements, any party has the right to submit the relevant dispute to the South China International Economic and Trade Arbitration Commission for arbitration, in accordance with the then effective arbitration rules and procedures. The arbitration shall be conducted in Shenzhen. The arbitration award shall be final and binding on all parties. The dispute resolution provisions also provide that the arbitration tribunal may award any remedies including injunctive relief (such as injunction against carrying out business activities, or mandating the transfer of assets), specific performance of contractual obligations, remedies concerning the equity interest or assets of Wangchen Technology and Moji Technology and order the winding up of Wangchen Technology and Moji Technology. To the extent permitted by PRC laws, when awaiting the formation of the arbitration tribunal or otherwise under appropriate conditions, either Party may seek and the Court with competent jurisdiction shall have power to grant preliminary injunctive relief or other interlocutory remedies from a court with competent jurisdiction to facilitate the arbitration. The Parties agree that the courts of Hong Kong, Cayman Islands, China and the place where the principal assets of Wangchen Technology and Moji Technology are located shall all be deemed to have competent jurisdiction.

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

As a result of the above, in the event that Wangchen Technology, Moji 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 the section headed “Risk Factors — Risks Relating to Our Contractual Arrangements” in this document for further details.

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Conflict of Interest

Each of the Registered Shareholders and Wangchen Technology has given his/her/its irrevocable undertakings in the Powers of Attorney which address potential conflicts of interests that may arise in connection with the Contractual Arrangements. For further details, see the sub-paragraph headed “— Powers of Attorney” above.

Succession

The provisions set out in the Contractual Arrangements are also binding on the successors of the Relevant Individual Shareholders, as if the successors were signing parties to the Contractual Arrangements. Under the Civil Code of the PRC, the successors include the spouse, children, parents, brothers, sisters, paternal grandparents and the maternal grandparents and any breach by the successors would be deemed to be a breach of the Contractual Arrangements. In case of a breach, WFOE may enforce its rights against the successors. Pursuant to the Contractual Arrangements, any heir of the Individual Shareholders shall inherit any and all rights and obligations of the Individual Shareholders under the Contractual Arrangements as a result of their death, loss of capacity, or under other circumstances which would affect their exercise of right as Registered Shareholders of Wangchen Technology, as if such heir was a signing party to such Contractual Arrangements.

According to the terms of the Exclusive Option Agreement, each of the Relevant Individual Shareholders has undertaken, in the event of death or loss of capacity or any other events that could possibly affect his/her exercise of the rights and obligations in Wangchen Technology, his/her successor or such person designated as his/her successor in the undertakings of the Relevant Individual Shareholders shall be deemed to be a party to the Contractual Arrangements and shall assume all the rights and obligations of the Individual Shareholders under the Contractual Arrangements.

Based on the foregoing, our PRC Legal Advisers are of the view that (i) the Contractual Arrangements provide protection to our Group even in the event of loss of capacity, death, bankruptcy (if applicable), or divorce of the Relevant Individual Shareholders; and (ii) the loss of capacity, death, bankruptcy (if applicable) or divorce of the Relevant Individual Shareholders would not affect the validity of the Contractual Arrangements, and WFOE may enforce its rights under the Contractual Arrangements against the successors of such shareholders.

Loss sharing

Under the relevant PRC laws and regulations, neither our Company nor WFOE is legally required to share the losses of, or provide financial support to, our PRC Operating Entities. Our PRC Operating Entities are also limited liability companies and shall be solely liable for their own debts and losses with assets and properties owned by them. WFOE intends to continuously provide to or assist our PRC Operating Entities in obtaining financial support when deemed necessary. In addition, given that our Group conducts a substantial portion of its business operations in the PRC through our PRC Operating Entities, which hold the requisite PRC operational licenses and approvals, and that their financial position and results of operations are consolidated into our Group’s financial statements under the applicable accounting principles, our Company’s business, financial position and results of operations would be adversely affected if our PRC Operating Entities suffer losses.

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However, as provided in the Exclusive Option Agreement, without the prior written consent of WFOE, Wangchen Technology and Moji Technology shall not, among others, (i) sell, transfer, mortgage or dispose of in any manner any of its assets, business, operation rights, legitimate interest in the income; (ii) execute any contract except the contracts executed in the ordinary course of business; (iii) provide any person with any loan or credit or provide any security or guarantee for indebtedness of any third party; (iv) in any manner supplement, change or amend the articles of association, increase or decrease their registered capital, or change the structure of the registered capital in other manner; (v) cause or permit to merge, consolidate with, acquire or invest in any person; (vi) in any manner distribute dividends to their shareholders unless upon the written request of WFOE; and (vii) engage in any business in competition with WFOE or its affiliates. Therefore, due to the relevant restrictive provisions in the agreements, the potential adverse effect on WFOE and our Company in the event of any loss suffered from Wangchen Technology and Moji Technology can be limited to a certain extent.

Liquidation

Pursuant to the Exclusive Option Agreement, in the event of a mandatory liquidation required by the PRC laws, the shareholders of Wangchen Technology and Moji Technology shall give the proceeds they received from liquidation as a gift to the WFOE or its designee(s) to the extent permitted by the PRC laws.

Insurance

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

Our confirmation

As of the Latest Practicable Date, we had not encountered any interference or encumbrance from any PRC governing bodies in operating our businesses through the PRC Operating Entities under the Contractual Arrangements.

Circumstances under which we will adjust or unwind the Contractual Arrangements

If the relevant business is no longer falling in the catalog of prohibitions or restrictions or certain conditions and permission of foreign investment access required under the applicable laws, and we can legally operate our business under PRC laws, regulations and policies, the WFOE will exercise the call option under the Exclusive Option Agreement to acquire the equity interest/assets of Wangchen Technology and Moji Technology and unwind the Contractual Arrangements subject to any application or approval procedures and the approval by the relevant governmental authorities.

LEGALITY OF THE CONTRACTUAL ARRANGEMENTS

Based on the above, we believe that the Contractual Arrangements are narrowly tailored to achieve our business purpose and minimize the potential conflict with relevant PRC laws and regulations. Our PRC Legal Advisers have advised that, upon execution of the Contractual Arrangements:

- (a) each agreement under the Contractual Arrangements is governed by PRC laws and has been executed properly by each party;

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- (b) each of the agreements comprising the Contractual Arrangements is valid, legal and binding under PRC laws, except for: (1) the dispute resolution provision which states that (i) the arbitration tribunal may award any remedies, including preliminary and permanent injunctive relief (such as injunction against carrying out business activities, or mandating the transfer of assets), specific performance of contractual obligations, remedies concerning the equity interests or assets of Wangchen Technology and Moji Technology and awards ordering the winding up of Wangchen Technology and Moji Technology; (ii) to the extent permitted by PRC laws, when awaiting the formation of the arbitration tribunal or otherwise under appropriate conditions, either Party may seek and the Court with competent authority shall have power to grant, preliminary injunctive relief or other interlocutory remedies from a court with competent jurisdiction to facilitate the arbitration; and (iii) without violating the applicable governing laws, the courts of Hong Kong, Cayman Islands (being the place of incorporation of our Company), Shenzhen (being the place of incorporation of Wangchen Technology and Moji Technology) and other jurisdiction (being the place where the principal assets of Wangchen Technology, Moji Technology or our Company are located) shall be deemed to have competent jurisdiction. Our PRC Legal Advisers have advised that the aforementioned dispute resolution provisions may not be enforceable under PRC laws; and (2) the provision that provides that (i) in the event of dissolution or liquidation of Wangchen Technology and Moji Technology, each Registered Shareholder and Wangchen Technology, respectively, shall transfer all of the assets that they should acquire and have acquired as shareholders of Wangchen Technology and Moji Technology during corporate dissolution and liquidation to WFOE or its designated person without consideration, and direct the liquidation group to directly deliver the assets aforementioned to WFOE and/or its designated person; (ii) in case the aforementioned transfer shall include consideration under the then applicable PRC laws, apart from transfer with consideration and direct delivery of the assets, the shareholders agree to return the consideration in full amount to WFOE and/or its designated person in an appropriate way to ensure that WFOE and/or its designated person would not suffer any losses. Our PRC Legal Advisers have advised that the aforementioned provision may not be enforceable under PRC laws in the event of a mandatory liquidation required by PRC laws or bankruptcy liquidation;
- (c) parties to each of the agreements comprising the Contractual Arrangements have the power and capacity to execute the agreements and perform their respective obligations thereunder. Each of the agreements comprising the Contractual Arrangements is binding on the parties thereto and none of them violates the provisions of “violating any mandatory provisions of laws or administrative regulations”, “malicious collusion is conducted to damage others’ legitimate rights and interests” or “offending public order or good morals” as stipulated in the Civil Code of the PRC;
- (d) none of the Contractual Arrangements violates any provisions of the articles of association of Wangchen Technology, Moji Technology or WFOE;
- (e) the execution, delivery, effect and implementation of each of the Contractual Arrangements have obtained all required approvals, authorisations or consents from the PRC governmental authorities and such approvals, authorisations or consents continue to be in effect, except that:
 - (i) any share pledge contemplated under the Equity Pledge Agreement is subject to the registration with local administration for market regulation;

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- (ii) the disposal of any share pledged under the Equity Pledge Agent is subject to the approvals and/or registration with the PRC regulatory authority;
- (iii) the transfer or license of intellectual property under the Contractual Arrangements are subject to registration with the PRC regulatory authorities;
- (iv) the exercise of the options to acquire the equity interests or assets under the Exclusive Option Agreement in the future are subject to the relevant approvals, registration or filings with the PRC regulatory authorities as applicable; and
- (v) the arbitration awards/injunctive remedies provided under the dispute resolution provisions of the Contractual Arrangements shall be recognized by PRC courts before these awards or remedies can be proceeded.

However, we have been advised by our PRC Legal Advisers that there are substantial uncertainties regarding the interpretation and application of current and future PRC laws and regulations. Accordingly, there can be no assurance that the PRC regulatory authorities will not in the future take a view that is contrary to or otherwise different from the above opinion of our PRC Legal Advisers.

Notwithstanding the foregoing, on May 26, 2020, representatives of the Sole Sponsor, our PRC Legal Advisers and the Sole Sponsor’s PRC legal advisers consulted Shenzhen Communications Administration. Our PRC Legal Advisers have advised us that (i) Shenzhen Communications Administration is the competent government authority for our Company’s principal business activities; and (ii) based on such consultations, the adoption of the Contractual Arrangements is unlikely to be deemed ineffective or invalid under the applicable PRC laws and regulations and would not be challenged or subject to penalty for any violation of relevant PRC Laws and regulations.

Based on the above analysis and advice from our PRC Legal Advisers, the Directors are of the view that the adoption of the Contractual Arrangements is unlikely to be deemed ineffective or invalid under the applicable PRC laws and regulations. See the section headed “Risk Factors — Risks Relating to Our Contractual Arrangements”.

ACCOUNTING ASPECTS OF THE CONTRACTUAL ARRANGEMENTS

Consolidation of financial results of PRC Operating Entities

Under the Exclusive Business Cooperation Agreement, it was agreed that, in consideration of the services provided by WFOE, Wangchen Technology and Moji Technology shall pay services fees to WFOE. The services fee shall consist of 100% of the total consolidated profit of Wangchen Technology and Moji Technology, after the deduction of any accumulated deficit of Wangchen Technology, Moji Technology and their affiliated entities in respect of the preceding financial year(s), operating costs, expenses, taxes and other statutory contributions. WFOE has the right to periodically receive or inspect the accounts of the PRC Operating Entities.

In addition, under the Exclusive Option Agreement, WFOE has absolute contractual control over the distribution of dividends or any other amounts to the Registered Shareholders and Wangchen Technology as WFOE’s prior written consent is required before any distribution can be made. If the Registered Shareholders and Wangchen Technology receive any income, profit distribution or dividend, they shall promptly transfer or pay, as part of the services fee under the

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Exclusive Business Cooperation Agreement, such income, profit distribution or dividend to WFOE or any other person designated by WFOE to the extent permitted under applicable PRC laws. Because of the Contractual Arrangements, WFOE can effectively control, recognize and receive substantially all the economic benefit of the business and operations of the PRC Operating Entities. Accordingly, the PRC Operating Entities are treated as controlled structured entities of our Company and consolidated by our Company. The basis of consolidating the results of the PRC Operating Entities is disclosed in Note 2.2(a) to the Accountant’s Report set out in Appendix I to this document.

OUR DIRECTORS’ VIEW

Based on the above, our Directors are of the view that the Contractual Arrangements are narrowly tailored, as they are used to enable our Group to conduct businesses in industries that are subject to foreign investment restrictions and prohibitions in the PRC. Our Directors believe that the Contractual Arrangements are fair and reasonable because (i) the Contractual Arrangements were negotiated and executed on an arm’s length basis; (ii) by entering into the Exclusive Business Cooperation Agreement with WFOE, which is our subsidiary incorporated in PRC, our PRC Operating Entities will enjoy better economic and technical support from us, as well as a better market reputation after the [REDACTED], and (iii) a number of other companies use similar arrangements to accomplish the same purpose.

DEVELOPMENT IN THE PRC LEGISLATION ON FOREIGN INVESTMENT

Foreign Investment Law

The PRC Foreign Investment Law (the “FIL”) became effective on January 1, 2020 and 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-Owned Enterprise Law (《外資企業法》). The FIL constitutes the legal foundation for foreign investment in the PRC. The FIL is formulated to further expand opening-up, vigorously promote foreign investment and protect the legitimate rights and interests of foreign investors. According to the FIL, China adopts a system of national treatment plus Negative List with respect to foreign investment administration, and the Negative List will be issued (or approved to be issued) by the State Council, from time to time. The Negative List sets out the industries in which foreign investments are prohibited or restricted. Foreign investors would not be allowed to make investments in prohibited industries, while foreign investments must satisfy certain conditions stipulated in the Negative List for investment in restricted industries. Foreign investment and domestic investment in industries outside the scope of the Negative List shall be treated equally. On December 26, 2019, the State Council issued the Implementation Regulations for the Foreign Investment Law of the PRC (《中華人民共和國外商投資法實施條例》) (the “**Implementation Regulations**”) which became effective on January 1, 2020. The Implementation Regulations provide that foreign investments in sectors on the Negative List shall comply with special management measures in respect of shareholding, senior management personnel and other matters stipulated under the Negative List.

The FIL defines the foreign investment as the investment activities directly or indirectly conducted by foreign investors in the PRC, and sets forth the specific situations that should be regarded as foreign investment. Furthermore, the FIL stipulates that foreign investment includes the investment made in the PRC by foreign investors through any other means under the laws, administrative regulations and provisions stipulated by the State Council. Our PRC Legal Advisers confirmed that the FIL does not specify contractual arrangements as a form of foreign investment.

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In order to comply with the PRC laws and regulations, the Group implemented the Contractual Arrangements to allow the Company to gain effective control over, and receive substantially all the economic benefits generated by the business currently operated by the PRC Operating Entities. In that regard, if there are no other promulgated national laws, administrative regulations or administrative rules prohibiting or restricting the operation of or affecting the legality of Contractual Arrangements, the Directors and the PRC Legal Advisers are of the view that, as of the Latest Practicable Date, the FIL and the recent developments in the regulations on foreign investment in the PRC will not have any material adverse impact on the Group’s business operations as well as the Contractual Arrangements and each of the agreements under the Contractual Arrangements, and the legality and validity of the Contractual Arrangements would not be affected and therefore, the adoption of a VIE structure through contractual arrangements would not constitute a legal obstacle to the Company’s [REDACTED] as of the Latest Practicable Date. Nothing has come to the attention of the Sole Sponsor which suggests contrary to the views of the Directors and the PRC Legal Advisers in this regard.

Negative List

Article 6 of the Interpretation Note of the 2021 Negative List (“**Article 6**”) provides that “where a domestic enterprise engaged in the business within the prohibited areas of the Negative List on Access to Foreign Investment seeks to issue and list its shares overseas, it shall complete the examination process and obtain approval of the relevant competent authorities of the State, and the foreign investor shall not participate in the operation and management of the enterprise, and its shareholding percentage shall be subject to the relevant provisions on the administration of domestic securities investment by foreign investors.” On January 18, 2022, a press conference was held by the NDRC to further clarify the position of Article 6, during which the spokesman made it clear that Article 6 shall only be applicable to the situations where domestic enterprises were seeking a direct overseas issuance and listing (i.e. H-shares listing). Also, the principle of non-retroactivity of the law would be followed and a proper transitional period would be provided according to the press conference held by CSRC on December 24, 2021 regarding the implementation of the Draft Overseas Listing Administration Provisions and the Draft Overseas Listing Filing Measures. As such, our PRC Legal Advisers are of the view that Article 6 of the Interpretation Note of the 2021 Negative List only applies to a PRC domestic company’s direct overseas offering. An overseas listing adopting VIE structure through contractual arrangements which constitutes an indirect overseas offering, such as the [REDACTED] of the Company, does not fall within the scope of Article 6 and therefore is not subject to such provision as of the Latest Practicable Date. As a result, the Company would not be prohibited from future fundraisings solely based on the Negative List as of the Latest Practicable Date.

Further, our PRC Legal Advisers are of the view that as of the Latest Practicable Date, there are no laws or regulations currently in effect in the PRC that would require our Company to complete any approval, verification or filing procedures with the CSRC in respect of the proposed [REDACTED].

Please refer to the section headed “Risk Factors — Risks Relating to Our Contractual Arrangements” for further details of the risks we face relating to our Contractual Arrangements.

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COMPLIANCE WITH THE CONTRACTUAL ARRANGEMENTS

Our Group has adopted the following measures to ensure the effective operation of our Group with the implementation of the Contractual Arrangements and our compliance with the Contractual Arrangements:

- (1) major issues arising from the implementation and compliance with the Contractual Arrangements or any regulatory enquiries from government authorities will be submitted to our Board, if necessary, for review and discussion on an occurrence basis;
- (2) our Board will review the overall performance of and compliance with the Contractual Arrangements at least once a year;
- (3) our Company will disclose the overall performance and compliance with the Contractual Arrangements in our annual reports; 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, review the legal compliance of WFOE and our PRC Operating Entities to deal with specific issues or matters arising from the Contractual Arrangements.

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OVERVIEW

We are a mobile game developer, publisher and operator in the PRC with a focus on mobile sports simulation games for global markets. We ranked second in the mobile sports game market in the PRC in 2021, in terms of revenue from mobile sports game, representing a market share of approximately 7.9%. The mobile sports game market can be divided into mobile sports simulation game market and mobile sports battle game market, where the mobile sports simulation game market primarily comprises mobile sports management simulation game market and mobile sports action simulation game market. In 2021, we also ranked second in the mobile sports simulation game market in the PRC in terms of revenue from mobile sports simulation game, representing a market share of approximately 12.4%. The online sports game market includes all sports-themed games accessible to users on the internet, whereas, the mobile sports simulation game market is a segment of the online sports game market and refers specifically to online sports games which simulate the real-life sports world dynamics to present users with immersive gameplay experience on portable devices, such as tablets and smartphones. The online sports game market contributed approximately 2.7% to the overall online game market in the PRC in 2021. The online sports game market is currently fragmented with many relatively small companies with insignificant market influence and dominated by the largest market player with approximately 19.6% of market share in terms of revenue from online sports game in 2021. Second only to the market leader in terms of revenue from mobile sports game in 2021, we believe we are well-positioned to capture the growing market opportunities by capitalizing on our track record and success in the development and operation of mobile sports games.

Over the years, we developed and operated primarily mobile sports games. As of the Latest Practicable Date, we developed and operated four mobile sports games, among which *Football Master* (足球大師), *NBA Basketball Master* (NBA籃球大師) and *Football Champion* (最佳11人 — 冠軍球會) formed the backbone of our business and contributed the majority of our revenue during the Track Record Period. We have cultivated our user base from *Football Master* (足球大師), our first flagship mobile sports management simulation game launched in July 2014. Leveraging our success of *Football Master* (足球大師), we developed and launched our second mobile sports management simulation game, *NBA Basketball Master* (NBA籃球大師) in September 2017. Our *Football Champion* (最佳11人 — 冠軍球會) was launched in April 2020 with enhanced realistic graphics to feature more authentic 3D simulation on professional player’s motion, and with IP right licenses obtained from internationally renowned sports league, sports associations and sports clubs that are appealing to global football fans. In July 2022, we successfully launched our new mobile sports action simulation game, *Total Football* (最佳球會) in the PRC, New Zealand and Australia. *Total Football* (最佳球會) is our first self-developed mobile football action simulation game which incorporates the state of art 3D gameplay scenes and more advanced AI technology to enhance users’ sensational experience in the virtual sports matches by the application of manual steering skills. By virtue of the seamless gameplay with sophisticated action animation, *Total Football* (最佳球會) was featured and demonstrated on the display of Apple iPad model.

Leveraging our experiences in the development of our four mobile sports games, we are committed to making continuous efforts in capturing the market opportunities in the mobile sports game industry in the PRC and overseas markets to expand our mobile sports game portfolio. As of the Latest Practicable Date, we had a pipeline of three new mobile sports games, which are expected to be launched in December 2022 or January 2023, by the second half of 2023 and by the second half of 2024, respectively. To create attractive game content, we formed valuable and strategic relationships with IP right holders, including internationally renowned sports league, sports associations and sports clubs, including FIFPro, NBA, NBPA, Juventus F.C., Manchester City F.C., F.C. Bayern Munich, Paris Saint-Germain F.C., Borussia Dortmund and F.C. Barcelona. Our game

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development and operational capabilities have secured us the recognition by these sports league, sports associations and sports clubs which grant us IP right licenses to sustain the long-term popularity of our games.

In terms of game publishing, we mainly rely on self publishing. We self-publish our games by (i) collaborating directly with third-party distribution platforms, such as application marketplaces to allows users to download our games; (ii) providing QR codes on our official website for visitors to download and install our games; and (iii) commissioning advertising and marketing agencies to publicize our games with links which would be directed to the official website of our games or various third-party distribution platforms. To a lesser extent, we also partner with third-party publishers to publish and promote our games by leveraging their local resources and user base. We believe that our long-established and positive cooperation relationships fostered with such third-party distribution platforms and third-party publishers have facilitated the effective distribution of our games in the PRC and overseas markets.

Furthermore, in order to expand the global reach of our mobile sports games, we have established a strategic partnership with Garena, a leading global online game developer and publisher, which is part of a global consumer internet company founded in Singapore operating three core businesses across digital entertainment, e-commerce as well as digital payments and financial services. Pursuant to our cooperation, we believe Garena can serve as a solid foundation for our global expansion in overseas markets. Our Directors strive to maintain a collaborative relationship with Garena with an aim to further marketing and promoting our games through websites and platforms operated by Garena in overseas markets from time to time. We believe that such strategic partnership with Garena would bring us global market potential.

As a game operator, after a game is published, we will monitor and analyze the game performance and operation against user data and statistics on an ongoing basis in order to gain insights into user behaviors. Through adjusting advertisement campaigns and incentives, we aim to maximize the monetization potential by converting existing and new users into paying users by encouraging their in-game purchase of virtual items. We continuously maintain, upgrade and optimize our games during their entire lifecycle. We conduct periodic reviews of our games to detect and fix technical issues and release optimized versions following error corrections and technological upgrades. Through our devoted endeavors in optimizing game operation, we believe that these efforts would help enhance user engagement so as to retain and attract both the existing users and new users.

During the Track Record Period, the majority of our revenue was derived from our self-developed mobile sports games launched in both the PRC and overseas markets. All of our games are introduced on a free-to-play model and we generate our revenue from monetizing users by in-game purchases of virtual items. As a result of our success in capturing the market opportunities in the mobile sports game industry and driving user engagement, we have experienced a stable growth during the three years ended December 31, 2021, generating a revenue of approximately RMB378.6 million, RMB404.7 million and RMB459.9 million respectively, representing a CAGR of approximately 10.2% from 2019 to 2021. For the six months ended June 30, 2022, our revenue further increased significantly by approximately RMB113.8 million, or 62.9%, to approximately RMB294.8 million from approximately RMB181.0 million for the corresponding period in 2021.

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The table below sets forth a breakdown of revenue by our games for the periods indicated:

	2019		Year ended December 31,				Six months ended June 30,			
	RMB'000	%	2020	%	2021	%	2021	%	2022	%
			RMB'000		RMB'000		RMB'000		RMB'000	
							(Unaudited)			
Football Master (足球大師)	174,693	46.2	145,369	35.9	134,988	29.4	67,546	37.3	55,264	18.7
NBA Basketball Master (NBA籃球大師)	195,905	51.7	216,479	53.5	176,693	38.4	80,703	44.6	83,715	28.4
Football Champion (最佳11人 — 冠軍球會)	68	*	41,368	10.2	148,170	32.2	32,725	18.1	155,796	52.9
Chinese Super League (冠軍中超OL) ⁽¹⁾	7,205	1.9	857	0.2	—	—	—	—	—	—
Idol Love Story (戀愛吧! 偶像) ⁽¹⁾	759	0.2	672	0.2	—	—	—	—	—	—
Total	378,630	100.0	404,745	100.0	459,851	100.0	180,974	100.0	294,775	100.0

* Less than 0.1%

Note:

- (1) Discontinued games. Please refer to “— Our Games Pipeline — Discontinued games” for further details on our discontinued games.

The table below sets forth a breakdown of top up amount⁽¹⁾ by geographical locations⁽²⁾ for the periods indicated:

	2019		Year ended December 31,				Six months ended June 30,			
	RMB'000	%	2020	%	2021	%	2021	%	2022	%
			RMB'000		RMB'000		RMB'000		RMB'000	
The PRC	332,882	89.2	379,845	91.3	369,092	76.5	157,717	87.3	230,952	74.2
Overseas ⁽³⁾	40,240	10.8	36,162	8.7	113,323	23.5	22,928	12.7	80,159	25.8
Total	373,122	100.0	416,007	100.0	482,415	100.0	180,645	100.0	311,111	100.0

Notes:

- (1) The top up amount is defined as payment made by the paying users and credited to the user's game account. The top up amount is based on the operational data extracted from our database and thus not audited. The difference between the top up amount and the revenue recognized by our Group is mainly attributable to (i) deferred revenue recognized in accordance with the applicable accounting standards which results in the timing difference between the top up amount and revenue recognized; (ii) exchange differences arising from different exchange rates used by our Group and third-party distribution platforms; and (iii) applicable withholding tax withheld by third-party distribution platforms on behalf of our Group arising from our overseas top up amount.
- (2) The geographical location is determined by the IP address of the paying users where they registered our games for the first time.
- (3) Include users whose IP addresses at first time game registration are located outside the PRC, including Hong Kong, Macau, Taiwan, South Korea, Vietnam and other regions, and whose IP addresses which were not recorded at registration or first log-in for *Chinese Super League* (冠軍中超OL).

Capitalizing on our success in development and operation of popular mobile sports games and our collaboration with a diverse base of third-party distribution platforms and publishers, together with our strategic relationships with world-renowned IP right holders, strong research and development and comprehensive data analytics capabilities, as well as the support of our in-house professional team, we believe that through our continuous efforts, we are well-positioned to be one of the leading mobile sports game developers, publishers and operators in the PRC.

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COMPETITIVE STRENGTHS

We believe that the following competitive strengths have contributed to our growth during the Track Record Period, and will continue to help us further strengthen our position in the mobile sports game market in the PRC:

We are a mobile sports game developer and operator in the PRC with a focus on sports simulation games.

We are a mobile sports game developer and operator based in the PRC. In 2021, we ranked second in the mobile sports game market in the PRC in terms of revenue of mobile sports game, representing a market share of approximately 7.9% and ranked second in the mobile sports simulation game market in the PRC in terms of revenue of mobile sports simulation game, with a market share of approximately 12.4%.

Since our inception in 2013, we have been engaging in the development and operation of various popular mobile sports games with a focus on sports simulation games. As of the Latest Practicable Date, we developed and operated four mobile sports games in different language versions. We have cultivated our user base from *Football Master* (足球大師), our first flagship game launched in July 2014. It is our first mobile sports management simulation game which features over 1,200 real life football players from internationally renowned sports league, sports associations and sports clubs, including FIFPro, Juventus F.C., Paris Saint-Germain F.C. and Borussia Dortmund as at the Latest Practicable Date. Leveraging our success of *Football Master* (足球大師), we developed and launched our second flagship mobile sports management simulation game, *NBA Basketball Master* (NBA籃球大師) in September 2017. *NBA Basketball Master* (NBA籃球大師) is a basketball management simulation game where we have obtained IP right licenses from NBA and NBPA, providing users in the PRC, Hong Kong, Macau and Taiwan with realistic basketball management experience. We launched our *Football Champion* (最佳11人 — 冠軍球會) in April 2020 with enhanced realistic graphics to feature more authentic 3D simulation on professional players’ motion, and with IP right licenses obtained from internationally renowned sports league, sports associations and sports clubs that are appealing to global football fans. In July 2022, we launched our new mobile sports action simulation game, *Total Football* (最佳球會) in the PRC, New Zealand and Australia. *Total Football* (最佳球會) is our first self-developed mobile football action simulation game which incorporates the state of art 3D gameplay scenes and more advanced AI technology to enhance users’ sensational experience in the virtual sports matches by the application of manual steering skills. By virtue of the seamless gameplay with sophisticated action animation, *Total Football* (最佳球會) was featured and demonstrated on the display of Apple iPad model. These four mobile sports games demonstrated our capabilities in developing high-quality mobile sports games which gain popularity in the mobile sports game market in the PRC and overseas markets.

While we continue to generate recurring revenue from our existing portfolio of mobile sports games, we are committed to continuously upgrading our existing mobile sports games with new features, levels and avatars based on their market performance and feedback, and developing new mobile sports games. Instead of launching numerous games with different genres and target markets to test the market receptiveness, it is our Company’s strategy to concentrate our Group’s resources and efforts on the development and operation of a few high-quality mobile sports games to ensure that the quality of each game remains high in various aspects, such as the attractiveness of the game content and the sophistication of the graphics and game scene. We regularly introduces game upgrades and updates to incorporate the changing dynamics of real world sports players and teams to cater for the appeal from users and to synchronize the contents of our mobile sports games with reality to achieve a longer lifecycle of our mobile sports games as well as to maintain our competitive

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edge in the mobile sports game industry. Besides, for the development of *MLB Baseball Master* (*MLB 棒球大師*), one of our new mobile sports games in the pipeline, we have recruited a former PRC national baseball player and national baseball referee in the PRC as well as a baseball coach in the U.S. to join the game development team as strategic advisers to contribute to the game design, development and operation with a view to optimizing gameplay experience from the angle of a professional baseball player and fan. Our Directors believe that our passion and continuous efforts in optimizing user experience foster our competitive strength to engage users of our games in both the PRC and overseas markets with the attractive in-game simulation features to synchronise with the dynamic development of real world sports events. As of the Latest Practicable Date, we had a pipeline of three new mobile sports games, which are expected to be launched in December 2022 or January 2023, by the second half of 2023 and by the second half of 2024, respectively.

We have formed valuable and strategic relationships with IP right holders, including renowned sports league, sports associations and sports clubs, to create attractive game content.

We believe that one of the important features of an attractive mobile sports game lies with whether the athletes depicted in such games are popular and realistic, not only in terms of how they look, but also how they perform in the game. For such reason, it is vital for a mobile sports simulation game developer to obtain and continue to hold the IP right licenses of renowned sports leagues, sports associations or sports clubs to provide the photos, real life data and performance profiles of athletes, in order to create realistic and attractive game content.

The process of the sports leagues, sports associations and sports clubs in selecting their licensing partners is stringent. This is to ensure that the end-product produced by these licensing partners truly reflects the image of the athletes and the league itself such that their reputation can be safeguarded and the potential risks of brand confusion and deterioration can be avoided. In order to successfully secure IP right licenses from the IP right holders, we need to satisfy certain criteria concerning, among others, the registered capital, financial condition, popularity of games, development capabilities and brand reputation. According to the Frost & Sullivan Report, IP right licenses play a significant role in sports simulation games as the games aim to simulate popular sports leagues, sports associations and sports clubs to create a sense of immersion to their users. Therefore, the threshold for acquiring the IP right licenses from the established IP right holders poses as an entry barrier for new sports simulation game developers. Generally, established IP right holders are scrupulous when selecting game developers for partnership as they are unwilling to swarm the market with too many licensed games of poor quality which may threaten or potentially harm their long-term reputation and goodwill. By demonstrating our capability in negotiating, securing and continuously renewing the licensing agreements with these established IP right holders, we believe that this can be regarded as their endorsement of and recognition to our capability and brand. Leveraging the experience and expertise of our Founders, Directors and senior management in negotiating and liaising with the IP right holders, we have proven our capabilities by successfully obtaining and continuously renewing IP right licenses from internationally renowned sports league, sports associations and sports clubs, including FIFPro, NBA, NBPA, Juventus F.C., Manchester City F.C., F.C. Bayern Munich, Paris Saint-Germain F.C., Borussia Dortmund and F.C. Barcelona during the Track Record Period. As of the Latest Practicable Date, we have obtained 4, 2, 7 and 2 IP right licenses from the internationally renowned sports league, sports associations and sports clubs for the development and operation of our *Football Master* (*足球大師*), *NBA Basketball Master* (*NBA籃球大師*), *Football Champion* (*最佳11人 — 冠軍球會*) and *Total Football* (*最佳球會*), respectively. For details of those IP right licenses, please refer to the section headed “Our Business Model — Procurement of IP right licenses”. Going forward, we strive to maintain stable business relationship with these IP right holders, from which the licenses of their IP rights are generally renewable every one year. By obtaining and continuously renewing the IP right licenses from these

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renowned sports league, sports associations and sports clubs, we are granted with the legitimate right to use their trademarks and products, including but not limited to, the right to use their brand name, image of the stadium, brand’s application manual, jersey, names and images of athletes so as to enable us to enrich game content, scenes, athletes and images. We believe that this valuable and strategic relationship with IP right holders, including renowned sports league, sports associations and sports clubs will continue to enable us to foster our ability to further enhance and create realistic and appealing content of our mobile sports games.

Moreover, according to the Frost & Sullivan Report, there were only four basketball-themed simulation games launched in the PRC market as at December 31, 2021 that have acquired the IP right licenses from NBA. Amongst them, *NBA Basketball Master* (籃球大師) ranked second in terms of market share by revenue in 2021. Similarly, there were 14 football-themed simulation games launched in the PRC market as at December 31, 2021 that have acquired the IP right licenses from FIFPro (which is one of the most popular sports leagues within the football fans community), our *Football Champion* (最佳11人 — 冠軍球會) and *Football Master* (足球大師) ranked fourth and fifth in terms of market share by revenue in 2021, respectively. For further details on the four basketball-themed simulation games launched in the PRC market as at December 31, 2021 that have acquired IP right licenses from NBA and the football-themed simulation games launched in the PRC market as at December 31, 2021 that have acquired IP right licenses from FIFPro, please refer to the section headed “Industry Overview — Competitive Landscape Analysis”. Our Directors believe that even though the online sports game market in the PRC is fragmented with intense competition, our ability to obtain the IP right licenses under the stringent selection process of the IP right holders has secured ourselves an advantageous market position in the mobile sports game industry.

We have research and development as well as data analytics capabilities that enable us to create attractive mobile sports games and to drive user engagement.

Our research and development capabilities are one of the vital factors of our business success. Since our inception in 2013, we have been exerting efforts in building and reinforcing our research and development capabilities in pursuing technological advancement and bringing in further breakthrough in creating more attractive gameplay scenes and visualisation effects in our mobile sports games. During the Track Record Period, our ratio of total research and development expenses to our total revenue amounted to approximately 10.6%, 11.2%, 13.6% and 12.7%, respectively. As a result, we have built a cohesive in-house research and development team consisting of talents and professionals with technical expertise. As of the Latest Practicable Date, we had a total of 227 personnel in our research and development team. Our research and development team is led by our executive Director, Mr. Huang Xiang who has in-depth knowledge and over 11 years of experience in electronic engineering industry where he has accumulated profound knowledge and extensive experience in game and software development. Mr. Huang and our research and development team possess solid industry knowledge and expertise in developing customized design and engines for mobile sports games.

Over the years, we have developed a wide range of technologies to optimize performance of our games on mobile devices and applied these advanced technologies, such as AI technology, arena rendering engine, automatic 3D facial model as well as motion and physics engines, to enhance immersive and interactive user experiences in our mobile sports games. In particular, we developed an arena rendering engine that has enhanced and optimized the rendering effects of the scenes of gameplay, such as the high precision of grassland, audience at the stadium, facial expression and muscle movement of players in the matches as well as textile fabric dynamics of jersey of players. Such self-developed innovative engine allows us to provide an authentic match experience to our users. Also, we have developed a 3D reconstruction technology, InnoReal, which is a 360° high-speed

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camera system. The system helps collect all the motion images during sports events and generate dynamic 3D model output in a synchronized manner. With the use of such system, we are able to further enhance and optimize the rendering effects of the scenes of gameplay efficiently. In addition, we developed an automatic 3D facial model with high precision of facial expression of players which is built upon the sophisticated processing of 2D pictures of players in our database. We believe that we are differentiated from our competitors through our self-developed AI technology, including stochastic model used to predict and mimic in-game rapidly-changing environment and real-time performance so as to adjust to the dynamic movement of the athletes in the matches simultaneously.

As smooth gameplay is pivotal for a successful sports action simulation game, we have incorporated an advanced AI technology specific to sports functioning into the development of our new sports action simulation games, such as our *Total Football* (最佳球會). Our AI technology aims to optimize two key aspects of our gameplay — the seamless movement of our virtual players and the organization of the sports teams. Our AI technology not only facilitates the user’s manual control on the virtual players and the locomotion of in-game objects but also ensures the seamless organization of the virtual teams to mimic formation of a real-life sports team. With such advanced AI technology, our new sports action simulation games would allow users to virtually experience real-life sports tournaments by the application of manual steering abilities. In addition, we refined our motion and physics engines to optimize the instant graphic response to manual commands by users. Furthermore, we enhanced our rendering technology to improve the resolution of images of virtual players and arenas. Such successful combination of AI technology, motion and physics engines and rendering technology is one of our key competitive advantages that enable our games to outperform other similar sports simulation games in the market.

Besides, part of our success in research and development efforts lies with our collaboration with renowned universities in the PRC and overseas. For instance, we have formed a joint laboratory with a Chinese university in developing a 3D model which extracts 2D images to generate 3D content in our games efficiently. We also worked with a university in Germany to improve the computer network in order to enhance efficiencies. With the use of these technologies, we are able to create attractive gameplay scenes and visualisation effects, thereby enhancing the entertainment experience to users. Going forward, our research and development team is committed to keeping abreast of the technological advancement and strive to bring in further breakthrough in 3D technological features in our mobile sports games.

In addition, we have developed a comprehensive system for data collection which provides a solid database for us to monitor user behavior and gameplay data. The data we collect include time of gameplay, number of turns of games played, in-game activity levels, progress of skill levels, frequency of using specific in-game functions. As of the Latest Practicable Date, we have developed an effective sales and marketing team comprising 53 personnel responsible for collecting, organizing and analyzing our user data on an ongoing basis. We are committed to streamlining our data analytics platform and analyzing the wide array of gameplay data we collect in order to optimize our monetization strategies. Leveraging the centralized data platform, we are able to generate data reports indicating key performance indicators, such as DAUs and ARPPU, centrally manage voluminous data from different games, monitor and analyze user behavior in order to provide effective game development strategies, assess users’ receptiveness of new games or in-game virtual items, and analyze different user groups’ preferences and demands. The data analytics enables us to understand our users’ in-game behavioral patterns, and identify key performance drivers, attractive virtual items and other areas for improvement.

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We are able to implement efficient monetization strategies to retain the core group of loyal and paying users and maximize their in-game spending, as well as cost-effective advertising and marketing capabilities to attract new users.

We are able to implement efficient monetization strategies to retain the core group of loyal and paying users of our mobile sports games and maximize their in-game spending. For instance, we carried out promotional events at different festive seasons or occasions to stimulate our users’ in-game spending, such as during Lunar New Year, National Day holidays, Double 11 Shopping Season, and Christmas. Also, we offer monthly and seasonal sale packages with discounts on virtual items and daily login incentives in order to retain our users and increase user stickiness. The effectiveness of our monetization strategies can be reflected in the steady annual growth of ARPPU of *Football Master* (足球大師), *NBA Basketball Master* (NBA 籃球大師) and *Football Champion* (最佳11人 — 冠軍球會) from 2019 to 2021. In particular, the overall ARPPU of *Football Master* (足球大師) experienced a growth from RMB682 in 2019 to RMB1,053 in 2020 and RMB1,371 in 2021, representing a CAGR of approximately 41.8% during the period. For *NBA Basketball Master* (NBA 籃球大師), the overall ARPPU also experienced a growth from RMB372 in 2019 to RMB403 in 2020 and RMB464 in 2021, representing a CAGR of approximately 11.7%. Since the launch in April 2020, the overall ARPPU of *Football Champion* (最佳11人 — 冠軍球會) increased by approximately 30.1% from RMB259 in 2020 to RMB337 in 2021 and further increased by approximately 48.4% to RMB500 for the six months ended June 30, 2022. In addition, the average weekly user retention rates of our existing games were generally comparable to or higher than the industry average for the three years ended December 31, 2021 and the nine months ended September 30, 2022 according to the Frost & Sullivan Report. For details of the industry average weekly user retention rates, please refer to the section headed “Competition” in this section. For details on our monetization strategies, the operational data and average weekly user retention rate of each of our existing mobile sports games, please refer to “— Existing game portfolio”.

In addition, we possess cost-effective advertising and marketing capabilities in acquiring new users. During the Track Record Period, our Group’s overall acquisition cost per new user amounted to approximately RMB8.7, RMB10.4, RMB7.0 and RMB12.8, respectively. The relatively higher acquisition cost per new user for the year ended December 31, 2020 and the six months ended June 30, 2022, respectively, was primarily due to (i) the launch of *Football Champion* (最佳11人 — 冠軍球會) in April 2020 and accordingly, our Group increased the advertising and marketing expenses to acquire and expand the user base for the then new game at its launch and early-growth stage during the year ended December 31, 2020; and (ii) the massive online advertising activities carried out on various online platforms such as Facebook, Google, Tiktok and Twitter by our Group for promoting our *Football Champion* (最佳11人 — 冠軍球會) in the overseas markets such as Hong Kong, South Korea, Vietnam and Japan during the six months ended June 30, 2022. Our continuous efforts and business strategies to actively promote our existing games and new games in the pipeline in the PRC and overseas markets allow us to acquire and accumulate a wider user base upon whom we could maximize our monetization strategies. For details on our advertising and marketing strategies, please refer to “— Existing game portfolio” in this section. With both our efficient monetization strategies and cost-effective advertising and marketing capabilities, we have demonstrated a stable revenue growth during the Track Record Period.

We are led by an experienced and dedicated management team.

Our Founders and our senior management members (including our executive Directors) have extensive experience and understanding in the online sports game market. Mr. Jia Xiaodong, one of our Founders and executive Director, has more than ten years of experience in the game industry. Mr. Jia is primarily responsible for formulating the overall business direction and strategic planning

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of our Group. His vision and insights have significantly contributed to the planning and execution of our business strategies. Mr. Huang Xiang, one of our Founders and executive Director, has over 11 years of experience in the electronic engineering industry where he has accumulated profound knowledge and extensive experience in game and software development. He plays a key role in the development of our successful signature mobile sports games and is instrumental in overseeing the operation and technical aspects, including product development and know-how management of our Group. Mr. Li Xin, our executive Director who joined our Group in April 2016, has approximately eight years of experience in managing and operating technology companies and contributed significantly to managing our corporate structure and human resources. Our business success is also contributed by our dedicated senior management team which mainly consists of Mr. Zeng Ke, Mr. Guo Yuheng and Mr. Zhao Xin. Mr. Zeng Ke, our vice president of research and development, who joined our Group in April 2014, is primarily responsible for project management and engine development of our Group. He plays a key role in the development of our games. Mr. Guo Yuheng, our product vice president, who joined our Group in November 2018, contributed to the product development and planning of our Group. Mr. Zhao Xin, our vice president, who joined our Group in April 2016, has over ten years of experience in strategy planning and management. He plays a key role in overseeing the business development for the domestic and overseas markets of our Group. We also have a robust research and development team which consists of skilled game designers, artistic designers, programmers, level designers, sound engineers and testing engineers.

Having worked together for nine years, our core management and execution team has demonstrated great stability and cohesion, fostering a collaborative synergy to continuously develop and enhance our mobile sports games. Our core management and execution team not only possess innovative thinking and keen insights into the mobile sports game industry, but also have strong execution capabilities and the incentive to accomplish tremendous achievements. All members of our core management team engage in hands-on work and devote themselves to the game development process, driving efficiency from decision-making to execution.

OUR STRATEGIES

We intend to pursue the following strategies in order to maintain our position in the market and expand our market share for sustainable growth:

We will renew existing IP right licenses and obtain additional IP right licenses from sports leagues, sports associations and sports clubs for the development of our existing and new mobile sports games.

The formation of valuable and strategic relationships with IP right holders, including renowned sports leagues, sports associations and sports clubs, to obtain the legitimate rights to use their trademarks and images to create attractive game content is the key of success in the mobile sports simulation game industry. Therefore, we plan to maintain long-term collaborative relationships with these IP right holders in order to secure the IP right licenses for the development of our mobile sports games. For example, as of the Latest Practicable Date, we maintained our IP licensing agreements with NBA and NBPA for our *NBA Basketball Master* (*NBA籃球大師*), FIFPro, Juventus F.C., Paris Saint-Germain F.C. and Borussia Dortmund for our *Football Master* (*足球大師*) as well as FIFPro, Juventus F.C., F.C. Bayern Munich, Manchester City F.C., Paris Saint-Germain F.C., Borussia Dortmund and F.C. Barcelona for our *Football Champion* (*最佳11人 — 冠軍球會*).

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The following table sets forth the details of the existing IP right licenses of our four existing mobile sports games and their renewal status as of the Latest Practicable Date:

Games	Existing IP right licenses	Duration of existing IP right licenses	Status of renewal of the existing IP right licenses as of the Latest Practicable Date	Nature and geographical coverage of the existing IP right licenses
<i>Football Master</i> (足球大師)	FIFPro	April 1, 2020– April 1, 2023	IP licensing agreement renewed and valid	Non-exclusive, worldwide
	Paris Saint-Germain F.C.	October 1, 2021– September 30, 2023	IP licensing agreement obtained and valid	Non-exclusive, worldwide
	Borussia Dortmund	April 1, 2022– March 31, 2023	IP licensing agreement obtained and valid	Non-exclusive, worldwide
	Juventus F.C.	July 1, 2022– June 30, 2023	IP licensing agreement obtained and valid	Non-exclusive, worldwide
<i>NBA Basketball Master</i> (NBA籃球大師)	NBA	October 1, 2019– September 30, 2024	IP licensing agreement renewed and valid	Non-exclusive, the PRC, Hong Kong, Macau, Taiwan
	NBPA	October 29, 2018– September 30, 2024	IP licensing agreement renewed and valid	Non-exclusive, the PRC, Hong Kong, Macau, Taiwan
<i>Football Champion</i> (最佳11人 — 冠軍球會)	FIFPro	September 1, 2021– August 31, 2023	IP licensing agreement renewed and valid	Non-exclusive, worldwide
	Manchester City F.C.	January 1, 2021– January 1, 2023 ⁽¹⁾	IP licensing agreement renewed and valid	Non-exclusive, worldwide
	Juventus F.C.	July 1, 2021– June 30, 2023	IP licensing agreement renewed and valid	Non-exclusive, worldwide
	F.C. Bayern Munich	July 1, 2022– June 30, 2023	IP licensing agreement renewed and valid	Non-exclusive, worldwide
	Paris Saint-Germain F.C.	October 1, 2021– September 30, 2023	IP licensing agreement obtained and valid	Non-exclusive, worldwide
	Borussia Dortmund	April 1, 2022– March 31, 2023	IP licensing agreement obtained and valid	Non-exclusive, worldwide
	F.C. Barcelona	June 15, 2022– June 30, 2024	IP licensing agreement obtained and valid	Non-exclusive, worldwide
<i>Total Football</i> (最佳球會)	FIFPro	July 14, 2022– July 14, 2025	IP licensing agreement obtained and valid	Non-exclusive Worldwide
	Manchester City F.C.	January 1, 2022– December 31 2024	IP licensing agreement obtained and valid	Non-exclusive, worldwide

Note:

- (1) As of the Latest Practicable Date, we have reached a preliminary understanding on the major terms with Manchester City F.C. for renewal of the IP right license.

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Set out below is the breakdown of the estimated investment amount for securing and renewing the necessary licensing arrangement with the renowned sports leagues, sports associations and sports clubs for our four existing mobile sports games for the years ending December 31, 2023 and 2024:

	Estimated total investment amount (RMB'000)
IP right licenses for <i>NBA Basketball Master</i> (NBA籃球大師)	39,133
IP right licenses for <i>Football Master</i> (足球大師)	7,303
IP right licenses for <i>Football Champion</i> (最佳11人 — 冠軍球會)	69,275
IP right licenses for <i>Total Football</i> (最佳球會)	<u>21,170</u>
Total	<u>136,881</u>

The estimated investment amount for securing and renewing the licensing arrangement with the renowned sports leagues, sports associations and sports clubs for our four existing mobile sports games for the years ending December 31, 2023 and 2024 is determined with reference to our historical expenditure in securing and renewing such IP right licenses. We anticipate that the upcoming investment amount for securing and renewing each of the licensing arrangement will be maintained at a stable rate similar to the historical rate as we seek to maintain a mutually beneficial business relationship with our current IP right holders to sustain our existing game content.

We believe that our expertise and track record serve as solid foundations for us to continue to effectively develop new mobile sports games with high entertainment and commercial value through extending our existing IP right licenses and securing new IP right licenses. Leveraging our market position and experience in developing sports simulation games, such as *Football Master* (足球大師), *NBA Basketball Master* (NBA籃球大師), *Football Champion* (最佳11人 — 冠軍球會) and *Total Football* (最佳球會), we will continue to focus on our development of high-quality mobile sports games. In particular, as driven by the popularity of different sports genres and market trend as well as riding on our experience in developing and operating *Football Master* (足球大師), *NBA Basketball Master* (NBA籃球大師), *Football Champion* (最佳11人 — 冠軍球會) and *Total Football* (最佳球會), we are in the process of developing *MLB Baseball Master* (MLB棒球大師), *NBA Basketball Action* (NBA操作籃球) and *NFL American Football Master* (NFL橄欖球大師).

***MLB Baseball Master* (MLB棒球大師)**

According to the Frost & Sullivan Report, baseball is a long-established sport in countries, such as the United States and Japan. For instance, there was a cumulative baseball fanbase of approximately 86 million, 77 million, 29 million and 17 million in North America, Japan, South Korea and Taiwan in 2021, respectively. MLB is a well-established and popular professional baseball league in the United States. The market size of baseball mobile games in North America, Japan, South Korea and Taiwan was approximately USD255 million, USD318 million, USD194 million and USD108 million in 2021, respectively. It is expected to increase to approximately USD798 million, USD825 million, USD583 million and USD308 million in North America, Japan, South Korea and Taiwan in 2026, respectively, demonstrating the increasing popularity and huge potential growth of the fanbase of baseball in these locations. As of the Latest Practicable Date, we are in the process of

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negotiating with MLB and MLBPA and have reached a preliminary understanding with MLB and signed a term sheet with MLBPA in obtaining the IP right licenses for *MLB Baseball Master* (*MLB 棒球大師*) which are expected to be formalized in December 2022 or January 2023.

***NFL American Football Master* (*NFL 橄欖球大師*)**

In addition to baseball, the fanbase of American football is experiencing growth in overseas markets. For instance, there was a cumulative American football fanbase of approximately 36 million in North America in 2021. NFL is a mature American football league with a proven successful business model for attracting loyal American football fans, and therefore presents a huge potential entertainment market for commercialization of the sports overseas, such as North America. Further, the market size of American football mobile games in North America was approximately USD1,625 million in 2021, and is expected to increase to USD2,434 million in 2026, representing a CAGR of 8.4%. We plan to initiate formal negotiations with NFL and NFLPA in the second half of 2023 for obtaining the IP right licenses for *NFL American Football Master* (*NFL 橄欖球大師*) which are expected to be formalized by the first quarter of 2024.

***NBA Basketball Action* (*NBA 操作籃球*)**

We plan to initiate formal negotiations with NBA as well as NBPA for obtaining the IP right license for *NBA Basketball Action* (*NBA 操作籃球*) in the first half of 2023, which are expected to be formalized by the second half of 2023.

We expect to launch *MLB Baseball Master* (*MLB 棒球大師*) in December 2022 or January 2023, *NBA Basketball Action* (*NBA 操作籃球*) around the second half of 2023 and *NFL American Football Master* (*NFL 橄欖球大師*) around the second half of 2024. For more information of these new mobile sports games in the pipeline, please refer to “Our Games Pipeline — New games” in this section.

The key criteria in our selection of IP right licenses include: (a) the relevance of the sports leagues, sports associations and sports clubs to our developing mobile sports games; (b) the popularity and reputation of the sports leagues, sports associations and sports clubs; and (c) the overall costs in acquiring the relevant IP right licenses. The possession of such IP right licenses allows us to have the legitimate right to use their proprietary IP rights, including but not limited to the right to use their brand name, trademarks, image of the stadium, brand’s application manual, jersey, names and images of individual athletes so as to enable us to enrich game content, scenes, players and images. Our Directors believe that the Group is able to obtain the necessary IP right licenses in relation to *NBA Basketball Action* (*NBA 操作籃球*) and *NFL American Football Master* (*NFL 橄欖球大師*) due to that: (i) the Group has established long standing business relationship with NBA and NBPA since 2016 and 2018, respectively, for the development and publication of *NBA Basketball Master* (*NBA 籃球大師*). Considering that our Group has been able to fulfil the stringent check and due diligence procedures in securing and renewing the IP right licenses with NBA and NBPA since the establishment of business relationship and without any interruption nor commercial dispute and that NBPA had provided a preliminary indication in March 2022 to explore the grant of a separate licensing agreement for our new basketball-themed game, our Directors are confident to obtain the relevant IP right licenses from NBA and NBPA for *NBA Basketball Action* (*NBA 操作籃球*) subject to the formal negotiations on commercial terms and finalisation of the licensing agreement; and (ii) similar to NBA and NBPA, NFL and NFLPA are both American sports leagues targeting to promote the commercialization of the relevant sports globally and the Group has accumulated considerable management experiences and track record in liaising with different internationally renowned sports league, sports clubs and sports associations and successfully

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fulfilling their specific application procedures, such as due diligence vetting, company pitch and negotiation to acquire and renew the relevant IP right licenses. As such, our Directors believe that the Group is able to obtain the relevant IP right licenses from NFL and NFLPA for *NFL American Football Master* (*NFL橄欖球大師*) subject to the formal negotiations on commercial terms and finalisation of the licensing agreement. To minimize unnecessary incurrence of IP license royalty payment before the official launch of our games, we plan to approach and initiate formal discussion with the relevant IP right holders around six to 12 months prior to the scheduled official game launch date. Having considered the above, the Sole Sponsor is not aware of any circumstance which suggests contrary to the Director’s view that the Group is able to obtain the necessary IP right licenses in relation to *NBA Basketball Action* (*NBA操作籃球*) and *NFL American Football Master* (*NFL橄欖球大師*) after the respective initiation of formal negotiation.

The following table sets forth the details of the new IP right licenses to be obtained for the development of our three new mobile sports games and the status of negotiation with the IP right holders as of the Latest Practicable Date:

Games	New IP right licenses	Nature and geographical coverage	Expected duration of the IP right licenses	Status of negotiation with the IP right holders as of the Latest Practicable Date
<i>MLB Baseball Master</i> (<i>MLB 棒球大師</i>)	MLB	Non-exclusive Worldwide	Five years	Reached preliminary agreement, which is expected to be formalized in December 2022 or January 2023
	MLBPA	Non-exclusive Worldwide	Five years	Signed a term sheet and expected to formalize the IP licensing agreement in December 2022 or January 2023
<i>NBA Basketball Action</i> (<i>NBA操作籃球</i>)	NBA	Non-exclusive North America, The Greater China Region	Three years with another two-year renewal option or five years	Plan to initiate negotiations in the first half of 2023
	NBPA	Non-exclusive Worldwide	Three years with another two-year renewal option or five years	Plan to initiate negotiations in the first half of 2023
<i>NFL American Football Master</i> (<i>NFL橄欖球大師</i>)	NFL	Non-exclusive North America	Three years with another two-year renewal option or five years	Plan to initiate negotiations in the second half of 2023
	NFLPA	Non-exclusive North America	Three years with another two-year renewal option or five years	Plan to initiate negotiations in the second half of 2023

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Set out below is the breakdown of the estimated investment amount for obtaining the necessary IP right licenses from the renowned sports leagues, sports associations and sports clubs for our three new mobile sports games in the pipeline, including *MLB Baseball Master* (*MLB棒球大師*), *NFL American Football Master* (*NFL橄欖球大師*) and *NBA Basketball Action* (*NBA操作籃球*) for the years ending December 31, 2023 and 2024:

	Estimated total investment amount (RMB'000)
IP right licenses for <i>MLB Baseball Master</i> (<i>MLB棒球大師</i>)	19,611
IP right licenses for <i>NFL American Football Master</i> (<i>NFL橄欖球大師</i>)	19,200
IP right licenses for <i>NBA Basketball Action</i> (<i>NBA操作籃球</i>)	<u>23,837</u>
Total	<u>62,648</u>

The estimated investment amount for obtaining the IP right licenses from the renowned sports leagues, sports associations and sports clubs for our three new mobile sports games for the years ending December 31, 2023 and 2024 is determined with reference to our best knowledge of the market rate of similar arrangements with comparable sports league, sports associations or sports clubs and our historical expenditure for acquiring the relevant IP right licenses for our existing mobile sports games, as some of our new mobile sports games would require IP right licenses from the same IP right holders of our existing mobile sports games. For example, we have acquired the IP right licenses from NBA and NBPA for *NBA Basketball Master* (*NBA籃球大師*) and we plan to acquire the same licenses for our *NBA Basketball Action* (*NBA操作籃球*). For securing IP right licenses from the new IP right holders, we estimated our investment amount with reference to similar arrangements made in the market and our preliminary discussions and negotiations with the prospective IP right holders. Our Directors consider that the estimated total investment amount of obtaining the IP right licenses for our new games in the pipeline are reasonable, commensurate with and comparable to our historical costs of acquiring the IP licenses for our existing comparable games.

We believe that these valuable IP right licenses allows us to continuously enrich our mobile sports games, thereby bringing appealing gaming experience to our users. We expect that such expenses for our four existing mobile sports games and three new mobile sports games in the pipeline would amount to approximately RMB91.2 million and RMB108.3 million for the years ending December 31, 2023 and 2024, respectively. For more information, please refer to the section headed “Future Plans and Use of [REDACTED]” in this document.

We will further solidify our marketing efforts to actively promote our games to both PRC and overseas markets.

As our business continues to grow, we believe that effective promotion and marketing strategies are essential for us to maintain the popularity of our existing games and attract new users, in particular, for the new games that we plan to launch. During the Track Record Period, we incurred advertising and marketing expenses of approximately RMB54.5 million, RMB56.3 million, RMB76.5 million and RMB67.7 million, respectively. To continue to promote our existing games and the new games we plan to launch and implement this strategy, we plan to increase our marketing efforts to actively promote our games by advertising through various online social media platforms.

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Our Directors believe that effective advertising and marketing strategies are the keys to the promotion of our new mobile sports games. Therefore, despite that our advertising and marketing expenses may decrease overtime along different stages of a game’s lifecycle, we have genuine needs for additional funds to further solidify our marketing efforts in maintaining the popularity of our existing mobile sports games and promoting our new mobile sports games. Leveraging the success of our accumulated experience of developing, publishing and operating our current game portfolio in the PRC market and in line with the expanding market size of PRC mobile games to overseas growing at a CAGR of 23.1% from 2016 to 2021 and further at a CAGR of 13.6% from 2021 to 2026 according to the Frost & Sullivan Report, in addition to our newly launched mobile sports action simulation game, *Total Football* (最佳球會), we intend to launch three new mobile sports games, including *MLB Baseball Master* (MLB 棒球大師), *NBA Basketball Action* (NBA操作籃球) and *NFL American Football Master* (NFL 橄欖球大師) to strengthen and expand our market position in the PRC and overseas markets, such as the United States, Japan, Southeast Asia, Western Europe and other regions with large potential user base, high consumer spending capacity, deep penetration of major sports, and high smartphone penetration rates.

When evaluating business feasibility for an overseas market, we would analyze the addressable market size taking into account various factors, such as the popularity of smartphones and mobile games, the penetration rate of mainstream sports, the economic environment and per capita income and spending power, the population size, and the online payment habits and popular payment methods. We may formulate and adjust our business and marketing strategies and tailor our overseas business operations based on the popularity of local sports and the relevant requirements of licensing partners, for example, launching our new mobile sports games would require IP right licenses to be obtained from MLB, MLBPA, NFL and NFLPA. In order to strengthen and expand our market position in overseas markets, we plan to increase our advertising and marketing efforts by placing advertisements through various online social media platforms dedicated to overseas audience.

We also plan to launch offline marketing activities in the overseas markets, such as, placing advertisements at stadiums during world-sports events and prominent elevator position in grade A office buildings. In planning our budget in placing advertisements on online social media platforms and organizing offline marketing activities, we take into account various factors, including (i) our historical advertising and marketing expenses; (ii) the prevailing market average costs of advertisements; and (iii) the expected frequency and schedule of placing advertisements and holding offline marketing activities.

In addition, we plan to collaborate with selected famous athletes, online influencers or key opinion leaders by engaging them to host online video streaming shows to livestream their gameplay and arranging them to appear on our official social media channels and game events, in order to promote our games by attracting potential users to download and try our games. During the Track Record Period, we engaged brand ambassadors who are football and basketball stars, such as Chris Paul, Carmelo Anthony, Fernando Torres, Klay Thompson, Andrés Iniesta Luján, Ronaldinho Gaúcho and Rayford Trae Young. Pursuant to our brand ambassador agreements, they would appear on our official social media channels and other video streaming platforms to promote our games and livestream their gameplay. As part of our expansion in marketing efforts, we will continue to procure such engagements with other popular international sports stars to promote our existing and new mobile sports games. The key criteria in the selection of our brand ambassadors include: (a) whether their public image and reputation fit the positioning and target market of our games; (b) their popularity in the respective sports regime; (c) the overall costs for securing the collaboration agreement; (d) the expected benefits and value to be brought in; and (e) the variety in the scope of advertising and marketing activities the proposed brand ambassadors agree to participate in.

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The collaboration with our brand ambassadors would normally last for a year during which our brand ambassadors would participate in various marketing campaigns and activities from time to time as required. Normally, we would engage our brand ambassadors for the preparation of advertising materials, such as promotional photos and videos. Our brand ambassadors may also be invited to physically attend our game launch press conference or participate in online live sessions to interact with and introduce our game to the public. After the game has been operated for some time, we may organize live-streaming activities where our brand ambassadors would demonstrate gameplay on online platforms and share their experience and feedback instantly. We will also organize special events with our brand ambassadors for our game users such as real-life meeting and greeting and game conferences from time to time after game launch and distribute various advertising materials such as autographs or signed products of our brand ambassadors. Through such collaboration, we aim to increase the exposure and popularity of our mobile sports games, thereby attracting more potential users to download and try our mobile sports games.

The following table sets forth the details on our overseas expansion plan of our existing and new mobile sports games in relation to our proposed marketing campaigns, strategies and events:

Marketing campaigns, strategies and events	Details	Implementation timeline	Target overseas markets
<i>Football Champion (最佳11人 — 冠軍球會)</i>			
1. Advertising	Online advertisements through social media platforms, such as Facebook and YouTube	On a continuous basis and starting from the fourth quarter of 2021 in respective regions	East Asia (other than the PRC) Southeast Asia Europe
2. Engaging game ambassadors	Engaging top football players such as Andrés Iniesta Luján as game ambassadors	First half of 2022 and 2023	East Asia (other than the PRC) Southeast Asia Europe
3. Collaboration with KOLs	Collaborating with KOLs to promote the game	From second half of 2022	East Asia (other than the PRC) Southeast Asia Europe
<i>Total Football (最佳球會)</i>			
1. Advertising	Online advertisements through social media platforms, such as Facebook, YouTube	On a continuous basis and starting from the second quarter of 2022	East Asia (other than the PRC) Europe
2. Engaging game ambassadors	Engaging top football players such as Ronaldinho Gaucho as game ambassadors	Second half of 2022, 2023 and 2024	East Asia (other than the PRC)

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Marketing campaigns, strategies and events	Details	Implementation timeline	Target overseas markets
3. Holding gaming competitions	Inviting KOLs to join the gaming competitions and livestream the gameplay on major social media platforms	From second half of 2023	East Asia (other than the PRC)
4. Increasing exposure on major game review platforms	Inviting KOLs on major game review platforms, such as IGN and Polygon to post game review videos	From second half of 2023	Europe

MLB Baseball Master (MLB 棒球大師)

1. Advertising	Online advertisements through social media platforms, such as Facebook, Tiktok, YouTube	On a continuous basis and starting from the first quarter of 2023	North America East Asia (other than the PRC)
2. Increasing exposure on major game review platforms	Inviting KOLs on major game review platforms, such as IGN and Polygon to post our game review videos	From first half of 2023	North America
3. Collaboration with KOLs	Collaborating with KOLs to promote the game	From first half of 2023	North America East Asia (other than the PRC)
4. Engaging game ambassadors	Inviting top MLB players to act as our game ambassadors, in particular, inviting Japanese MLB players to promote our game in Japan	First half of 2023 and 2024	North America Japan

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Marketing campaigns, strategies and events	Details	Implementation timeline	Target overseas markets
<i>NBA Basketball Action</i> <i>(NBA 操作籃球)</i>			
1. Advertising	Online advertisements through social media platforms, such as Facebook, Tiktok, Youtube	On a continuous basis and starting from second half of 2023	North America
2. Holding gaming competitions	Inviting KOLs to join the gaming competitions and livestream the gameplay on major social media platforms	From first half of 2024	North America
3. Engaging game ambassadors	Inviting top NBA players as our game ambassadors	First half of 2024	North America
4. Increasing exposure on major game review platforms	Inviting KOLs on major game review platforms such as IGN and Polygon to post game review videos	From first half of 2024	North America

NFL American Football Master (橄欖球大師)

1. Advertising	Online advertisements through social media platforms, such as Facebook, Tiktok, YouTube	Second half of 2024	North America
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Note: The proposed marketing campaigns, strategies and events above are indicative as of the Latest Practicable Date, and the actual implementation timeline thereof may be subject to further changes due to varying market circumstances.

We plan to publish our new games and launch foreign language versions of our existing games through self-publishing, except for the publication of *MLB Baseball Master* (MLB 棒球大師) and *NBA Basketball Action* (NBA 操作籃球) in Taiwan and *Total Football* (最佳球會) in Southeast Asia, North America, South America, Middle East and North Africa through third-party publishing. In deciding whether or not to engage third-party publishers in certain overseas markets, we usually take into account (i) whether we have prior experience in publishing our game in that market, for example, we have accumulated extensive self-publishing experience of our mobile sports games in the PRC, Hong Kong, Macau, and Europe; (ii) whether certain jurisdictions require publication of our games via cooperation with local third-party publishers with the relevant license; and (iii) whether

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the third-party publisher possesses more established marketing resources, distribution networks and experience in game content localization as compared to exerting our own efforts to promote the game in that market which would be less cost effective.

Set out below is a breakdown of the estimated investment amount for further solidifying our marketing efforts to actively promote our games to both PRC and overseas markets for the years ending December 31, 2023 and 2024:

	Estimated total investment amount (RMB'000)
Online and offline advertising and marketing	225,278
Collaboration with selected famous athletes, online influencers or key opinion leaders	<u>7,680</u>
Total	<u>232,958</u>

We expect that our advertising and marketing expenses would amount to approximately RMB145.0 million and RMB88.0 million for the years ending December 31, 2023 and 2024, respectively. For more information, please refer to the section headed “Future Plans and Use of [REDACTED]” in this document.

We will further strengthen our talent pool in order to support our development of new mobile sports games and further improve our research and development capabilities.

We value the experiences and contribution of our technical staff and strong research and development capabilities are essential to our future growth and continuous success. We believe that our success relies on the talents recruited and trained by us, in particular, our research and development team. We plan to increase and enhance our talent pool by hiring more experienced and professional technical experts to join our research and development team, including 3D engineers, 3D graphics designers, AI researchers, back-end development staff, front-end development staff, game designers, IT support staff, test engineers and UI designers, so as to support our development of new mobile sports games as well as to improve our research and development capabilities. As such, we plan to recruit in total of 18 technical staff in 2023 and six technical staff in 2024. The expansion of our research and development team is essential to the implementation of our future plan because we anticipate an increasing workload due to the development of our three new mobile sports games while at the same time to maintain our current operation of existing games. For further details of our new games pipeline, please refer to “— Our Games Pipeline — New games” in this section. As such, we intend to recruit additional talents to enlarge and strengthen our research and development team with the following roles for the years ending December 31, 2023 and 2024:

Roles under the research and development team	Required experience and qualification	Number of staff to recruit
3D Engineers	<ul style="list-style-type: none"> Bachelor’s degree holder or above in computer science or related disciplines Extensive experience in developing network domains and graphic rendering development software with managerial experiences 	1

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Roles under the research and development team	Required experience and qualification	Number of staff to recruit
3D Graphics Designers	<ul style="list-style-type: none"> • Master’s degree holder or above in computer graphics, computer science, or related disciplines • Proficiency in common programming languages • Practical knowledge on computer graphics design 	2
AI Researchers	<ul style="list-style-type: none"> • Bachelor’s degree holder or above in computer science, electronics, automation, applied mathematics, or related disciplines • Extensive experience and technical skills in graphic rendering, computer vision and pattern recognition algorithm 	7
Back-end Development Staff	<ul style="list-style-type: none"> • Bachelor’s degree holder or above in computer science or related disciplines • Extensive experience and technical skills in game development using the JAVA software 	6
Front-end Development Staff	<ul style="list-style-type: none"> • Bachelor’s degree holder or above in computer science or related disciplines • Extensive experience in front-end game development with managerial experiences • Proficient programming abilities in designing, developing and optimizing game engine structure for game applications published on iOS and Android systems 	2
Game Designers	<ul style="list-style-type: none"> • Bachelor’s degree holder or above • Extensive experience in planning large-scale gaming system infrastructure • Experience in launching online products and familiar with the overall game development workflow 	2
IT Support Staff	<ul style="list-style-type: none"> • Bachelor’s degree holder or above • Extensive experience in operating online storage platforms, developing customized modules and plug-ins and in using various open-source software 	3
Test Engineers	<ul style="list-style-type: none"> • Diploma holder or above in computer science or related disciplines • Experience in game testing and familiar with common game testing methods and tools 	1
Total		24

The total estimated investment amount for hiring the technical staff for the research and development team for the years ending December 31, 2023 and 2024 is determined with reference to various factors, which include, among others, (a) our historical expenditure for hiring such technical staff for our research and development team with similar experience and qualification; (b) the additional experience, qualification and personal attributes required by us; (c) the prevailing average market rate of salary for candidates with the required experience, qualification and personal attributes; and (d) the availability of such technical staff and the then development progress of our new mobile sports games.

We expect that such expenses would amount to approximately RMB[REDACTED] and RMB[REDACTED] for the years ending December 31, 2023 and 2024, respectively. For more information, please see the section headed “Future Plans and Use of [REDACTED]” in this document.

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Estimated total investment amount in implementing our strategies and source of funding

Below is a table showing the estimated total investment amount for the years ending December 31, 2023 and 2024 in implementing our strategies and their respective source of funding:

		Source of funding	
	Estimated investment amount (HK'000)	[REDACTED] from [REDACTED] (HK'000)	Internal resources ⁽¹⁾ and/or bank borrowings (HK'000)
Renew existing IP right licenses and obtain additional IP right licenses from sports leagues, sports associations and sports clubs for the development of existing and new mobile sports games	233,313	[REDACTED]	230,094
Actively promote our games to both PRC and overseas markets	272,401	[REDACTED]	268,646
Strengthen our talent pool	<u>195,946</u>	<u>[REDACTED]</u>	<u>193,264</u>
Total	<u>701,660</u>	<u>[REDACTED]</u>	<u>692,004</u>

- (1) Our internal resources include cash generated from operating activities and our existing cash and bank balances comprising the [REDACTED] from the Pre-[REDACTED] Convertible Bonds subscribed by Garena Ventures.

The following table sets forth our semi-annual planning for use of the [REDACTED] from [REDACTED] to our strategies:

	For the six months ending June 30, 2023 (HK\$'000)	For the six months ending December 31, 2023 (HK\$'000)	For the six months ending June 30, 2024 (HK\$'000)	For the six months ending December 31, 2024 (HK\$'000)	Total (HK\$'000)	Approximate percentage of total [REDACTED]
Renew existing IP right licenses and obtain additional IP right licenses from sports leagues, sports associations and sports clubs for the development of existing and new mobile sports games	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Actively promote our games to both PRC and overseas markets	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Strengthen our talent pool	<u>[REDACTED]</u>	<u>[REDACTED]</u>	<u>[REDACTED]</u>	<u>[REDACTED]</u>	<u>[REDACTED]</u>	<u>[REDACTED]</u>
Total	<u>[REDACTED]</u>	<u>[REDACTED]</u>	<u>[REDACTED]</u>	<u>[REDACTED]</u>	<u>[REDACTED]</u>	<u>[REDACTED]</u>

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OUR GAMES PIPELINE

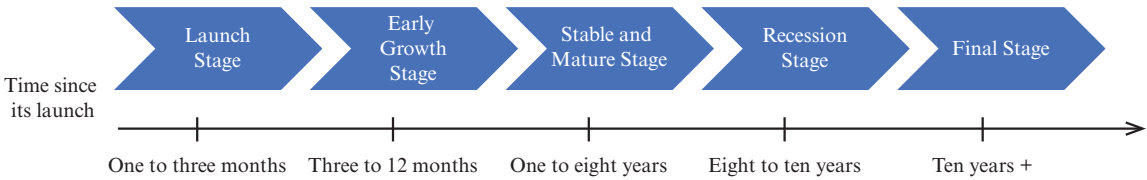
Overview

Our Group’s games primarily focus on mobile sports games, which according to the Frost & Sullivan Report, have a relatively longer lifecycle of approximately ten years due to a myriad of factors, such as the enduring popularity of sports, prolonged user engagement because of the stickiness of the loyal sports fans and realistic portrayal of real-life sports world development of our games with continuous upgrades and updates as well as our continuous efforts to extend the lifecycle of our games. As of the Latest Practicable Date, we had four games in operation, all of them were self-developed and self-operated. During the Track Record Period, we had a sports simulation game that was co-developed with a third party sports game publisher and was discontinued in August 2020. We also had a love simulation genre game, which was developed with a third party on a commission basis, with determined storyline and script. This game was discontinued in November 2020.

All of our existing games adopt the free-to-play model. We monetize our users by encouraging them to purchase in-game virtual items.

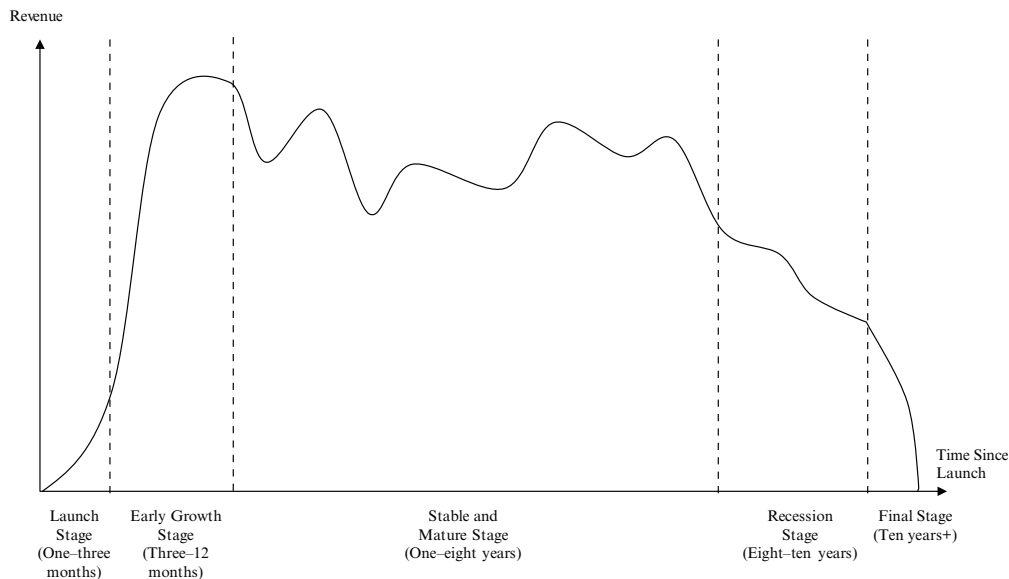
Lifecycle of our games

According to the Frost & Sullivan Report, our mobile sports games typically experience the following stages in their lifecycle, the details of which are set out below:



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General Lifecycle Model of our Mobile Sports Games



- *Launch stage:* The game will be officially launched if the game shows potential profitability through beta testing. At the launch stage, the game is published and promoted via various marketing strategies, such as top up discounts and registration gifts, etc.
- *Early growth stage:* After the game is officially launched, during the early growth stage, the number of users and revenue generated from such game tend to increase rapidly as a result of realized payoff from comprehensive marketing and promotional campaigns since the launch stage.
- *Stable and mature stage:* The game has gradually gained its user base and solidified its market share and revenue generated from such game tends to be growing or become stable. During this period, on a game-by-game basis, there may be fluctuations in the number of users and revenue due to short-term unfavourable events. However, any temporary fluctuations may not be indicative of the end of the stable and mature stage of its lifecycle. According to the Frost & Sullivan Report, temporary fluctuations in the number of users, such as average DAUs, average MAUs and/or average MPUs are common for a Model B online sports game which enters into the stable and mature stage of its lifecycle. For the detailed characteristics of Model B Online Sports Games, please refer to the section headed “Industry Overview — Overview of Mobile Sports Game Market — Life Cycle Analysis of Online Sports Game”. Besides, after the game is launched over a period of time, during its stable and mature stage, it is typical to have a lower average DAUs, average MAUs and average MPUs while having a relatively higher ARPPU when compared with that of its early growth stage due to the greater spending propensity of the loyal users and the retention loss of the less loyal users. At this stage, we maintain our marketing and promotional efforts and operation activities to enhance game features and introduce version upgrades on a regular basis to maximize profitability of the game.

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- *Recession stage:* When the game enters into its recession stage, as some less loyal users begin to lose interest in the game and there are not enough new users to supplement the user base, the number of active users and revenue generated from the game tend to decrease or to stay at a relatively inactive or low level. Accordingly, we maintain only basic game operation until we finally terminate such game when its profitability cannot justify our continuous operation. Similarly, any temporary decrease in the number of users or revenue, due to ad hoc or temporary factors such as system maintenance or suspension, does not necessarily indicate that the game has started its recession stage.
- *Final stage:* Once the revenue of the game fails to cover its operating cost or shows the trend of loss, the game may enter into its final stage that we may decide to terminate such game.

We have plans to maintain the profitability of our existing and new mobile sports games

During the Track Record Period, (i) our gross profit experienced an increasing trend, amounting to approximately RMB171.1 million, RMB180.4 million, RMB221.5 million for the years ended December 31, 2019, 2020 and 2021, respectively. For the six months ended June 30, 2022, our gross profit recorded approximately RMB148.9 million, representing an increase by approximately 80.3% from RMB82.6 million for the corresponding period in 2021; (ii) we recorded a relatively stable gross profit margin of approximately 45.2% and 44.6% for the two years ended December 31, 2020, respectively and an increase to approximately 48.2% for the year ended December 31, 2021, and a further increase to approximately 50.5% for the six months ended June 30, 2022; (iii) after adjusting for the net fair value changes on the Pre-[REDACTED] Convertible Bonds and the [REDACTED] expenses as a non-HKFRS measure, (for details, please refer to the section headed “Financial Information — Non-HKFRS Measure” of this document) we recorded an increase in our adjusted net profit (non-HKFRS measure) by approximately 24.7% or RMB11.2 million from approximately RMB45.5 million for the year ended December 31, 2020 to approximately RMB56.7 million for the year ended December 31, 2021, while the decrease in our adjusted net profit (non-HKFRS measure) in 2020 by approximately 8.8% or RMB4.4 million from approximately RMB49.9 million for the year ended December 31, 2019 was attributable to a net exchange loss of approximately RMB5.2 million as a result of the exchange rate fluctuation between US\$ and RMB and the provision for impairment of trade receivables from an overdue payment by one of our historical major suppliers of an unpaid amount owed to our Group of approximately RMB3.7 million for the year ended December 31, 2020. For the six months ended June 30, 2022, our adjusted net profit (non-HKFRS measure) increased by approximately RMB7.0 million, or 34.5%, to approximately RMB27.3 million from approximately RMB20.3 million for the corresponding period in 2021. As such, we achieved an overall improvement of profitability for the year ended December 31, 2021 as well as the six months ended June 30, 2022 due to the successful expansion into the overseas markets which resulted in an increase in revenue by approximately RMB55.2 million or 13.6% in 2021 when compared with 2020 and a further increase in revenue by approximately RMB113.8 million or 62.9% during the six months ended June 30, 2022 when compared with the corresponding period in 2021; and an improvement in gross profit margin from approximately 44.6% in 2020 to 48.2% in 2021 and further to 50.5% during the six months ended June 30, 2022. With our successful expansion into the overseas markets, coupled with that commission fee to the Platforms has constituted the largest component among our cost of revenue during the Track Record Period, representing approximately 68.9%, 70.1%, 70.5% and 70.1% of our total cost of revenue respectively during the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022 as well as the comparatively lower commission rates charged by overseas distribution platforms than those charged by local distribution platforms in the PRC by approximately 30 basis points, the increase in our proportion of income generated from the overseas markets has

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contributed to the improvement of our gross profit margin. Considering our business strategies and expansion plans to launch our new pipeline games, namely *MLB Baseball Master* (*MLB 棒球大師*), *NBA Basketball Action* (*NBA 操作籃球*) and *NFL American Football Master* (*NFL 橄欖球大師*) in the targeted overseas markets, our Directors are of the view that our current level of gross profit margin is sustainable in the foreseeable future.

We strive to maintain and improve the profitability of our existing and new mobile sports games through various measures. These measures included:

- **Launching multiple language versions**

We expanded our Group’s user base by publishing multiple languages of our existing games and launching new games into the overseas markets. For further details on the multiple language versions of each of our existing mobile sports games, please refer to “Existing game portfolio” in this section. Going forward, it is our plan to launch different language versions of our new games in the pipeline, namely *MLB Baseball Master* (*MLB 棒球大師*), *NBA Basketball Action* (*NBA 操作籃球*) and *NFL American Football Master* (*NFL 橄欖球大師*) in overseas markets. Our Director believe that the expansion in geographical coverage of our games by launching different language versions allows us to have a wider user base and is also a conduit to generate revenue from both the PRC and overseas markets, while contributing to the increase of our profit margin due to the relatively lower commission rates charged by overseas distribution platforms as compared to those in the PRC.

- **Devising different advertising and marketing strategies**

We further tailored the advertising and marketing strategies to promote our Group’s games in both the PRC and overseas markets. During the Track Record Period, we invested heavily in online advertisements for our *Football Master* (*足球大師*), *NBA Basketball Master* (*NBA 籃球大師*) and *Football Champion* (*最佳11人 — 冠軍球會*) and from time to time adjusted our marketing and promotional strategies for these three mobile sports games at different stages of their lifecycle. We deployed marketing analysis tools to select popular online advertising channels and optimized the advertising strategies, including frequency, timing and contents of online advertisements, as well as increased our exposure on the major social media platforms such as Facebook, Youtube, Twitter and Tiktok, in order to effectively expand the reach of our game advertisements to global users. We also collaborated with selected famous athletes, online influencers and key opinion leaders as game ambassadors to increase local awareness of our games. The collaboration arrangements primarily include engaging them to livestream their gameplay in order to attract more potential mobile game users to download and try our games so as to enlarge the user base and eventually to devise our strategies to monetize their spending in our games. For *NBA Basketball Master* (*NBA 籃球大師*), we engaged popular NBA basketball players as our brand ambassadors, such as, Carmelo Anthony, Klay Thompson and Rayford Trae Young for one year commencing from May 16, 2020, one year commencing from May 27, 2021 and one year commencing from September 1, 2022, respectively. For our *Football Champion* (*最佳11人 — 冠軍球會*), we engaged international football stars as our brand ambassadors, such as Fernando Torres, for one year commencing from November 1, 2020 and Andrés Iniesta Luján for 13 months commencing from December 1, 2021. For the newly launched *Total Football* (*最佳球會*), we also applied advertising and marketing strategies commensurate with its stage of

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lifecycle and engaged Ronaldinho Gauchó, a world-renowned football player, as our game ambassador for one year commencing from June 1, 2022 to facilitate the penetration of the game in the global market.

In view of the popularity of mobile sports simulation games in the PRC and overseas markets, we plan to capture such vast opportunities by carrying out effective advertising and marketing strategies. Our Directors believe that online advertisement is an effective means to increase the game exposure to capture more registered users for our game at the launching stage for accumulating the user base for our subsequent monetization in the target markets. We will from time to time evaluate the effectiveness of our online advertisement through social media platforms according to the number of user views based on which we will adjust our marketing budgets. We will also enhance our marketing penetration efforts in certain markets by way of localised advertising. For instance, users from Japan tend to have a stronger preference on Japanese players in well-known football teams, hence, when conducting game advertising in Japan, we would customize the contents with such virtual players to appeal to local users in Japan. Subsequent to game launch, we plan to invite KOLs to: (i) join the game competitions and livestream the gameplay on major social media platforms to their followers; and (ii) distribute game review videos on social media platforms, such as Instagram and Polygon, to demonstrate the appealing game features to global mobile game users.

- **Implementing monetization strategies and in-game promotions**

We retained the core group of loyal and paying users in our existing games and planned to convert more non-paying users into paying users of our new games in the pipeline with regular in-game promotion and optimization strategies to maximize monetization of such users who demonstrate high paying potential and substantial purchasing capability. To sustain the revenue and profit generated from *Football Master* (足球大師), we implemented various in-game promotions and activities to retain existing users by continuously optimizing their gameplay experience and increasing their stickiness to the game, as well as to maximize monetization by stimulating their in-game spending, such as, the introduction of King of Pitch (綠茵之王) and All-Star Tour (全明星巡迴賽). Similar monetization strategies and in-game promotions were also implemented in *NBA Basketball Master* (NBA籃球大師), including Elite Spearing Session (精英競技場), NBA Knowledge Quizzes (NBA課堂) and other seasonal promotions to continuously optimize user experience, stimulate in-game spending and increase user stickiness. To leverage our success of *Football Master* (足球大師) and *NBA Basketball Master* (NBA籃球大師), we devised strategies in *Football Champion* (最佳11人 — 冠軍球會) to enhance the user experience and gameplays, including our introduction of Pitch New Star (綠茵新星), New Players Party (新手狂歡) and Seven Days Log-in Rewards (七天登錄獎勵). For our new games, for example, to enhance the gameplay experience to baseball sports fans, we have recruited a former PRC national baseball player and national baseball referee in the PRC as well as a baseball coach in the U.S. to join our game development team as strategic advisers to contribute to the game design, development and operation of *MLB Baseball Master* (MLB棒球大師) by leveraging their professional baseball expertise and knowledge such that the game can simulate real-world sports environment to provide appealing gameplay experiences to baseball fans. For details on how to optimize user experience and increase user spending and stickiness for our *Football Master* (足球大師), *NBA Basketball Master* (NBA籃球大師) and *Football Champion* (最佳11人 — 冠軍球會), please see “— Existing game portfolio” in this section.

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For our new games to penetrate into the targeted overseas markets, we will place particular focus on (i) contents localization, which not only expands the foreign language versions of our new games to cater for users from different countries but also introduces localized features in the game contents; (ii) device adaptability tailored for different specifications required by a variety of popular smart phone models in the local markets. For example, the system modifications of our new games are adjusted according to the prevailing smart phone models so that the gameplay and graphics therein can be run more smoothly without crashes; and (iii) different in-game promotional activities to accommodate the preference of users in the local markets, for instance conducting a series of promotional activities themed with the World Cup 2022, and offering sale packages with discounts on virtual items during local festive occasions, such as Lunar New Year, Valentine’s Day and Christmas.

- **Conducting regular reviews on our business partners**

We conducted regular reviews on the scale of operation and track records in regional markets, financial resources, market reputation and influence, creditworthiness and management capabilities of our business partners and maintained frequent communications with third-party distribution platforms and third-party publishers so as to closely monitor their credit qualities and our collectability of trade receivables to ensure effective credit control. Our Group will discontinue business relationship with the relevant suppliers against whom our Group had made provision for impairment of trade receivables during the Track Record Period upon expiration of the relevant agreements.

- **Enhancing technological improvement on our game technology**

We continue to make technological improvement by: (i) introducing regular modifications and enhancements to our user interface, design of function keys and artistic design of game scenes; and (ii) enhancing visualisation effect of our virtual players and arena using the latest rendering tools to foster our game attractiveness towards our users upon whom to maximize our monetization strategies.

Through our devoted efforts in maintaining and enhancing the profitability of our mobile sports games, our Directors believe that the four existing mobile sports games can continue to provide steady and stable income stream to our Group while our new games in the pipeline will serve as new drivers for our continuous business growth and development.

Our introduction of new mobile sports games could foster our business growth and enhance our market position

In addition to our efforts in maintaining and boosting the profitability of our three existing mobile sports management simulation games, we plan to develop new mobile sports action simulation games as a horizontal expansion within the mobile sports simulation game market and to capture the potential market opportunities of different sports types as well as to foster our business growth and enhance our market position in both the PRC and overseas markets. In July 2022, we launched our new mobile sports action simulation game, *Total Football* (最佳球會) in the PRC, New Zealand and Australia. As of the Latest Practicable Date, we are in the process of developing *MLB Baseball Master* (MLB棒球大師), *NBA Basketball Action* (NBA操作籃球) and *NFL American*

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Football Master (NFL橄欖球大師) and we believe that our new mobile sports action simulation games will contribute to the sustainability of our business and enhance our market position in both the PRC and overseas mobile sports game markets for the reasons illustrated below.

- **Substantially the same business model in the development and operation of our new mobile sports action simulation games**

The business model in the development and operation of our newly launched *Total Football* (最佳球會) and the three mobile sports games in the pipeline (i.e. mobile sports action simulation games with management simulation elements) is substantially the same as that of our *Football Master* (足球大師), *NBA Basketball Master* (NBA籃球大師) and *Football Champion* (最佳11人 — 冠軍球會) (i.e. mobile sports management simulation games). The entire game development process would normally take approximately one and a half year to three years starting from project initiation to official launch. Over the past eight years since our inception, we have accumulated expertise and extensive experiences in each stage of the development process. Our competence in the development and operation of our new mobile sports games can be illustrated as below:

- (i) *Our Company has accumulated extensive experiences to secure strategic relationships with the IP right holders:* We have accumulated extensive experiences in the due diligence application process and negotiation process with the renowned IP right holders through the development and ongoing operation of our four existing mobile sports games. Along our business development, the grant of IP right licenses from the internationally renowned sports league, sports associations and sports clubs can be regarded as the recognition by these IP right holders of our business and brand. Our Directors believe that our accumulated experiences in securing strategic relationships with these renowned IP right holders serve as the solid foundation for us to secure more IP right licenses to develop our new mobile sports games.
- (ii) *Our Company has acquired research and development capabilities and technologies required for our new mobile sports games:* From the technical perspective, the research and development capabilities and technologies required in the development and operation of our new mobile sports games are largely similar to that of our existing mobile sports games. In particular, we have already developed crucial technologies for our new sports action simulation games, such as AI technology and enhanced rendering technology, through the past years of efforts which have been applied in the game development of our newly launched sports action simulation game, *Total Football* (最佳球會). For further details of our technology, please refer to “Game Technology” in this section. As such, by applying these crucial technologies in developing our new mobile sports games, we are able to create attractive gameplay scenes and visualization effects, thereby ensuring the quality and entertainment experience for our users. As such, our Directors believe that we are competent and well-equipped in developing our new mobile sports games.

- **Cooperation and collaboration with Garena to expand our global reach**

In order to expand the global reach of our new mobile sports games, we have established a strategic partnership with Garena, a leading global online game developer and publisher, which is part of a global consumer internet company founded in Singapore and operating three core businesses across digital entertainment, e-commerce as well as digital payments and financial services. Pursuant to our cooperation, we believe Garena can serve as a solid

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foundation for our global expansion in overseas markets. Our Directors strive to maintain and extend our collaborative relationship with Garena with an aim to further market and promote our games through websites and platforms operated by Garena in overseas markets from time to time. We believe that this strategic partnership with Garena would bring us more global market exposure.

- **Popularity of the types of sports and the market size of mobile sports simulation games in our target markets**

Our new games are themed with different types of sports, including baseball, football, basketball, and American football. According to the Frost & Sullivan Report, the popularity of these sports is increasing and is expected to enjoy a continuous growth from 2021 to 2026 in the PRC and overseas markets that our Company targets for launching our new mobile sports games in the pipeline. In addition, the market size of mobile sports simulation game in the PRC and overseas markets is also expected to grow from 2021 to 2026. For details of the analysis on the popularity of the relevant sports and the market size of mobile sports simulation games in the PRC and overseas markets, please refer to section headed “Industry Overview — Overview of Mobile Sports Game Market — Market Size Analysis”.

As driven by the huge population of fan base and rising popularity of these sports in conjunction with the increasing market size of mobile sports simulation games in the PRC and overseas markets, we aim at leveraging our accumulated experience and success in developing and operating *Football Master* (足球大師), *NBA Basketball Master* (NBA籃球大師), *Football Champion* (最佳11人 — 冠軍球會) and *Total Football* (最佳球會) to further develop and launch new mobile sports games, namely *MLB Baseball Master* (MLB棒球大師), *NBA Basketball Action* (NBA操作籃球) and *NFL American Football Master* (NFL橄欖球大師). For further details of our games pipeline and our plan in the development of the new mobile sports games, please refer to “— Our Games Pipeline — New Games” and “— Overview — We have plans to maintain the profitability of our existing and new mobile sports games” in this section. Considering our experience in mobile sports game development, the popularity of these sports and the expected growth of the mobile sports simulation game market in the PRC and overseas markets, our Directors believe that there is sufficient demand in the mobile sports simulation game market for us to capture where we can monetize the potential users with our strategic advertising and marketing strategies tailored for the respective overseas markets and to sustain our game pipeline with growth potential.




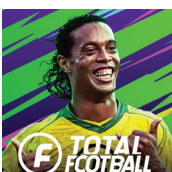
For more details on the target markets of our new games, please refer to the section headed “Business — Our Games Pipeline — New Games”.

As such, our Directors are of the view that, considering (i) the relatively longer lifecycle of our existing and new games all of which are designed as Model B mobile sports games; (ii) our plan to maintain the profitability of our existing and new mobile sports games; and (iii) the introduction of our pipeline of new mobile sports games which we believe can foster our business growth and enhance our market position, our business is sustainable for achieving long-term and continuous growth.

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Existing game portfolio

As of the Latest Practicable Date, our existing game portfolio included four mobile sports simulation games with different language versions in operations, the details of which are set forth in the following table:

Title	Type	IP right licenses obtained	Languages version	Launch date	Expected remaining lifecycle (Months)	Lifecycle stage as of the Latest Practicable Date	Approximate breakeven period (Months) ⁽¹⁾	Approximate payback period (Months) ⁽²⁾
 <i>Football Master</i> (足球大師) ⁽³⁾	Management simulation	FIFPro, Juventus F.C., Paris Saint-Germain F.C. and Borussia Dortmund	Simplified Chinese, Traditional Chinese, English, Korean, French, German, Italian, Vietnamese, Thai and Indonesian	July 2014	19	Recession	6	7
 <i>NBA Basketball Master</i> (NBA籃球大師) ⁽³⁾	Management simulation	NBA and NBPA	Simplified Chinese and Traditional Chinese	September 2017	57	Stable and Mature	2	18
 <i>Football Champion</i> (最佳11人 — 冠軍球會) ⁽³⁾	Management simulation	FIFPro, Juventus F.C., F.C. Bayern Munich, Manchester City F.C., Paris Saint-Germain F.C., Borussia Dortmund and F.C. Barcelona	Simplified Chinese, Traditional Chinese, English, Thai, Indonesian, Korean, Vietnamese and Japanese	April 2020	88	Stable and Mature	3	22
 <i>Total Football</i> (最佳球會) ⁽³⁾	Action simulation	FIFPro, Manchester City F.C.	Simplified Chinese, English, French, German and Italian	July 2022	115	Early growth	4*	22*

Note (1) The breakeven period represents the approximate period from the launch of the game to the time when its revenue is able to cover its costs for the operation of the game.

Note (2) The payback period represents the approximate period from the launch of the game to the time when its accumulated net profit is able to cover the initial investment amount for the development of the game.

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Note (3) As part of our localization strategies tailored for different overseas markets, we may adopt different titles of our games when launching in certain overseas markets to suit the local culture or leverage our established brand awareness among users in those regions. In light of our localization strategies, (i) *Football Master* (足球大師) is named as “足球大師 — 黃金一代” in the PRC and “*Football Master*” in all other overseas markets; (ii) *NBA Basketball Master* (NBA籃球大師) is named as “NBA籃球大師” in the PRC, Hong Kong and Macau and “*NBA大師Mobile*” in Taiwan; (iii) *Football Champion* (最佳11人 — 冠軍球會) is named as “最佳11人 — 冠軍球會” in the PRC, “*Football Master 2*” in Vietnam, “ベストイレブン — CHAMPIONS CLUB” in Japan and “*Football Master 2 — Soccer Star*” in all other overseas markets; and (iv) *Total Football* (最佳球會) is named as “最佳球會” in the PRC and “*Total Football*” in the overseas markets as of the Latest Practicable Date. Regardless of different game titles, the game contents of the respective game is substantially the same.

* The approximate breakeven period and payback period of *Total Football* (最佳球會) are based on the management’s best estimate as of the Latest Practicable Date with reference to the latest available unaudited management accounts up to October 31, 2022.

Football Master (足球大師)



Game Interface of Football Master (足球大師)

Football Master (足球大師), launched in July 2014, is our first flagship mobile football management simulation game, with both the PRC and global user-base. Our in-house graphic design and technological capability as well as IP right licenses secured by our management team from renowned sports league, sports associations and sports clubs, including FIFPro, Juventus F.C., Paris Saint-Germain F.C. and Borussia Dortmund, have allowed us to develop realistic profile simulation to mimic in-game footage with over 1,200 real world professional football players as of the Latest Practicable Date. In addition to managing a team of football players to participate in various football matches and tournaments, this game also enables users to communicate with each other and join multiplayer matches. This game offers in-game purchases of virtual items to enhance their gameplay experience.

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As of the Latest Practicable Date, other than the simplified Chinese and traditional Chinese versions, we also launched other language versions in English, Korean, French, German, Italian, Vietnamese, Thai and Indonesian.

The operational data of this game during the Track Record Period are as follows:

	For the year ended December 31						For the six months ended June 30,					
	2019		Total	2020		Total	2021		Total	2022		Total
	PRC	Overseas ⁽¹⁾		PRC	Overseas ⁽¹⁾		PRC	Overseas ⁽¹⁾		PRC	Overseas ⁽¹⁾	
Total registered users	773,472	1,956,804	2,730,276	1,010,271	3,357,720	4,367,991	1,230,695	4,483,947	5,714,642	1,325,762	4,808,961	6,134,723
Total new users	419,490	1,582,887	2,002,377	236,799	1,400,916	1,637,715	220,424	1,126,227	1,346,651	95,067	325,014	420,081
Average DAUs	25,742	23,340	49,082	24,840	22,896	47,736	17,600	15,912	33,512	16,042	10,839	26,881
Average MAUs	82,557	173,548	256,105	62,798	145,135	207,933	47,327	115,657	162,984	41,367	68,205	109,572
Active users retention rate (%)	26.0	16.8	21.1	14.0	4.1	6.5	17.1	4.4	6.9	12.4	2.6	4.6
Average MPUs	15,744	4,156	19,900	8,234	3,524	11,758	5,506	2,420	7,926	4,653	1,561	6,214
Paying users retention rate (%)	5.8	6.8	6.0	8.6	11.2	9.1	18.7	18.3	18.6	18.0	16.6	17.6
ARPPU (RMB)	772	339	682	1,300	476	1,053	1,626	790	1,371	1,585	1,019	1,442
Acquisition cost per new user (RMB) ⁽²⁾	—	—	8.1	—	—	1.3	—	—	0.1	—	—	*

* less than 0.01

Notes:

1. The operational data of our game in overseas jurisdictions include users initially registering our games with recorded overseas IP addresses. For illustrative purpose only, overseas includes the regions outside the PRC, including Hong Kong, Macau, Taiwan and other regions.
2. The acquisition cost per new user is calculated holistically without differentiating users from the PRC and overseas markets as our advertisements and marketing activities were mainly conducted on various online platforms or channels accessible to users across different countries.

According to the Frost & Sullivan Report, *Football Master* (足球大師) is considered to be at the stable and mature stage of its lifecycle during the Track Record Period, but just stepped into its recession stage as of the Latest Practicable Date with the expected remaining lifecycle of approximately 19 months before reaching its final stage (based on the time difference between the launch time of the game and the baseline of ten year lifecycle of a Model B game). Even though we expanded the geographical coverage of our *Football Master* (足球大師) into other overseas markets with the introduction of English version in 2016 and traditional Chinese, French, German, Italian, Thai, Vietnamese, Indonesian and Korean versions in 2017, it was not until 2019 when our *Football Master* (足球大師) was more frequently featured as top recommendations on various third party distribution platforms, such as Apple AppStore and other Android platforms as we increased our advertising and marketing efforts to promote the game in the overseas markets during 2019 which allowed the game to gain more exposure to the overseas users, therefore, the total registered users experienced an increase of approximately 275.1% from 727,900 at the beginning of 2019 to 2,730,276 at the end of 2019. The number of total registered users continued to increase by approximately 60.0% from 2019 to 2020 and a further increase of approximately 30.8% from 2020 to 2021, with a CAGR of approximately 44.7% from 2019 to 2021. Such continuous growth was primarily due to the increased exposure of the game on various third-party distribution platforms, such as Apple AppStore and Google Play, which was resulted from a combination of (i) the expanding fanbase of football in the PRC and overseas markets; and (ii) the marketing campaigns brought by the global football events, such as the 2020 European Championship and 2021 UEFA Champions League. As our game demonstrated the ability to attract new users and established a strong presence within the users' community, our third-party distribution platforms would increase our exposure by recommending our game on their respective distribution platforms, and in turn, further boosted our downloads.

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On one hand, its average DAUs and average MAUs decreased by approximately 2.7% and 18.8% from 2019 to 2020, respectively, and further decreased by approximately 29.8% and 21.6% from 2020 to 2021, respectively, as our Group devoted less additional marketing and promotional efforts on the game to retaining inactive and less loyal users with low paying propensity and purchasing capability during the years.

On the other hand, while there was a decrease in the average MPUs of approximately 40.9% from 2019 to 2020 and a further decrease of approximately 32.6% from 2020 to 2021, the ARPPU experienced a continuous growth at a CAGR of approximately 41.8% from 2019 to 2021, which was attributable to our ability to constantly engage and retain the core groups of users who demonstrate high paying potential and substantial purchasing capability, and our strategy to maximise the monetization of such existing paying users. For instance, we launched new in-game events regularly, such as player and ranking events, to induce our paying users to maintain and increase their spending on virtual items and hence increasing the ARPPU of the game. Furthermore, as our existing core users have already invested considerable time and resources to maintain and improve their competitiveness in the game, it is likely that these paying and loyal users would have little incentive to start afresh in other similar games at a beginner’s level. As such, despite that the average MPUs of *Football Master* (足球大師) decreased by approximately 32.6% from 2020 to 2021, the ARPPU continued to increase by approximately 30.2% for the same period.

The increase of ARPPU of approximately 30.2% from 2020 to 2021 was attributable to our measures to maintain the profitability of the game. For example, we performed upgrades and introduced new virtual players, such as those from the Paris Saint-Germain F.C. as we successfully obtained the relevant IP right license in October 2021. We also introduced new gameplays in *Football Master* (足球大師) during the 2021 UEFA Champions League which allowed our users to participate in the cross-server competition and to enhance the level of the virtual players by engaging them in specific trainings. As a result of the continuous game upgrades with the introduction of new virtual players and new gameplays, we are able to enhance user experience and hence stimulate the average in-game spending level of our paying users in 2021.

For the six months ended June 30, 2022, we recorded a further increase of total registered users by 420,081 in the PRC and overseas markets. Compared with the year ended December 31, 2021, the average DAUs, MAUs and MPUs for six months ended June 30, 2022 experienced a decrease of approximately 19.8%, 32.8% and 21.6%, respectively, however, the ARPPU increased slightly by approximately 5.2%. The trend was consistent with our strategy to continue devoting less advertising and marketing expenses on retaining the inactive and less loyal users of the game at the later period of stable and mature stage of this game’s lifecycle, while continuing to maximize the monetization from the core group of loyal and paying users.

The acquisition cost per new user of *Football Master* (足球大師) decreased from approximately RMB8.1 for the year ended December 31, 2019 to approximately RMB1.3 for the year ended December 31, 2020, and further decreased to RMB0.1 for the year ended December 31, 2021, mainly due to the reduced advertising and marketing expenses on the game to acquire new users at the later period of stable and mature stage of its lifecycle.

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Football Master (足球大師) is our first flagship mobile sports game launched in July 2014. As the game approaches to its later stage of lifecycle, we would devote less advertising and marketing expenses to retaining the inactive and less loyal users. Instead, we would implement our tailored monetization strategies to retain the core group of loyal and paying users and maximize their in-game spending. As a result, it is likely that the paying users would be dominated by the core group of loyal users with higher paying propensity and purchasing capabilities, thus boosting the ARPPU of the game. In contrast, for a game at its earlier stage of lifecycle during which we would devise our marketing strategies mainly to acquire and expand the user base, the ARPPU would be at a relatively lower level as we are in the process of increasing the number and stickiness of new users to the game. Besides, according to the Frost & Sullivan Report, inflation is a common phenomenon in the in-game economy where the price of more attractive and limited in-game virtual items will continuously increase over time, therefore, the longer the game operates, the higher the in-game inflation level would be. As a result, since *Football Master (足球大師)* is our first mobile sports game which has been operated for over eight years since its launch in July 2014, the average spending level of the paying users would be comparatively higher than that of our other existing games.

Our Group has continuously implemented various marketing and promotional strategies and activities to engage and retain the existing core group of users of *Football Master (足球大師)* as well as maximize the monetization thereof, which are set forth as follows:

- *Optimize user experience*

We released updates in *Football Master (足球大師)* which were tailor-made to our promotional events. For example, we held special themed in-game competitions to optimize user experience. These released updates included: (i) King of the Pitch (綠茵之王), an event where all users could gain experience points by completing specific in-game tasks. In addition, users will be rewarded with elite virtual football players based on their accumulated points and ranking against other competing users. These elite virtual football players are limited in supply and generally not easily accessible solely by in-game spending. King of Pitch (綠茵之王) was first introduced in 2018 and hosted quarterly since then, (ii) All-Star Tour (全明星巡迴賽), an event where users can use their own virtual football team to challenge teams of non-player characters with advanced level of difficulty to gain extra experience points. All users would then be ranked according to the extra experience points obtained and those users with high experience points would be rewarded with certain in-game virtual items and free tokens. All-Star Tour (全明星巡迴賽) was first introduced in 2019 and hosted every half year thereafter, and (iii) King of Kings Tournament (逐夢歐洲之巔), an event for top ranking users to use their own virtual football team to compete against each other to gain extra experience points. Upon completion of the tournament, based on participating users' respective ranking, top ranking users were rewarded with limited virtual items which were not normally made available in the game. Such events aim specifically to satisfy our top ranking (and in general loyal and paying) users' need to seek new challenges and offer them a chance to showcase their gaming skills. We also added new features to our game regularly, such as Coaching Staff (教練系統) was introduced to increase the variety of the management function so that our users can hire and manage virtual football coaches in the game to enhance skill attributes of virtual players owned by the users and their match performance when competing against other teams in the game. Coaching Staff (教練系統) was first introduced in 2019 and became a feature function available for users in the game thereafter.

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The following graphics illustrate the abovementioned in-game activities we implemented to optimize our user experience in *Football Master* (足球大師):

King of Pitch (綠茵之王)



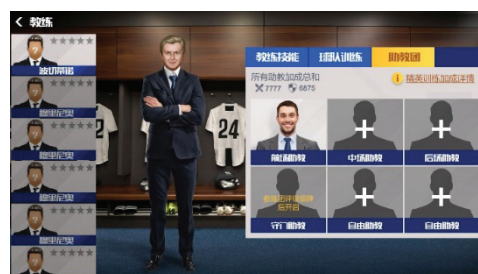
All-Star Tour (全明星巡迴賽)



King of Kings Tournament
(逐夢歐洲之巔)



Coaching Staff
(教練系統)



During the Track Record Period, we updated the profile and skill attributes of football athletes according to their actual performance during football seasons every year. For instance, we conducted an update in our *Football Master* (足球大師) every year to adjust the skill attributes of football athletes to align with their actual performance during the real-life player transfer window in major football leagues in Europe, and also with the rating of certain football athletes who participated in the 2021 UEFA Champions League. Also, we introduced new virtual football athletes from Paris Saint-Germain F.C. in the game after we acquired the IP right license from this French football club in Europe.

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- *Stimulate in-game spending*

We carried out promotional events to stimulate our users’ in-game spending in *Football Master* (足球大師). These events may align with real-life major football tournaments to allow users to take part in the virtual tournaments by controlling their virtual teams to compete against other teams in *Football Master* (足球大師). For example, we offered sales discounts on our virtual items and gifts of football jersey authentically signed by famous football players (e.g. Cristiano Ronaldo, Robert Lewandowski and Fernando Torres, etc.) during the 2020 European Championship and 2021 UEFA Champions League (歐洲冠軍聯賽). Other promotions were also held during festive occasions, for example, we held a series of promotional activities, including Spring Blessing (新春祝福) during the Lunar New Year in January 2021, Dragon Boat Festival Gifts (端午共品糉) in May 2021; Anniversary Celebration (周年慶活動) in September 2021, and the Double 11 Shopping Season (雙11打折季) in November 2021 during when users were able to acquire limited virtual football players and items which would not be normally made available beyond such festival promotion periods, thereby incentivizing users to spend on such virtual players and items within the above limited periods.

The following graphics illustrate the abovementioned promotional activities we implemented to stimulate in-game spending in *Football Master* (足球大師):

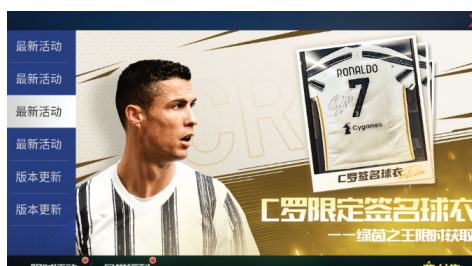
Regular sales discounts on virtual items (日常優惠活動)



Sales discounts during Double 11 Shopping Season (雙11打折季)



Gifts of authentically signed football jersey (球星限定簽名球衣)



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- *Retain our users and increase user stickiness*

We offered monthly and seasonal sale packages with discounts on virtual items, particularly during National Day holidays, Double 11 Shopping Season, Christmas, Lunar New Year, Valentine’s Day, etc., and provided our users with daily log-in incentives, such as giving free virtual items to strengthen the level of users’ team athletes in the game by logging into the game for consecutive days. We also, from time to time, add new programs in the game which encourage our users to constantly spend time in training their virtual football players. For example, we launched an in-game player development feature in the Special Training mode (特別訓練模式) which provides a built-in environment for the users to train their virtual players based on their relevant positions and attributes. The longer the training carried out by the users under this mode, the stronger the virtual players’ ability will become, thereby incentivizing users to devote more time playing and training in the game. Moreover, we may attempt to re-activate our relatively less active users by offering extra gifts and sending notification of our new in-game promotions and events to incentivize these less active users to try on such extra gifts and re-participate in new in-game events. We also introduced in-game celebration for the anniversaries of *Football Master* (足球大師) which aimed to serve similar purpose to incentivize users to continue participating in the game by offering new virtual gifts and items at our anniversary every year.

The following graphics illustrate the abovementioned in-game activities we implemented to retain our users and increase user stickiness in *Football Master* (足球大師):

Daily log-in incentives
(每日登陸獎勵)



Special Training mode
(特別訓練模式)



Notification to re-activate our less active users
(用戶重新激活活動)



In-game anniversary celebration
(周年慶活動)



For the three years ended December 31, 2021 and the nine months ended September 30, 2022, the average weekly user retention rate of *Football Master* (足球大師) was 17.0%, 18.8%, 9.6% and 9.2%, respectively. The highest weekly user retention rate of *Football Master* (足球大師) during the same periods was 35.1%, 48.7%, 12.9% and 11.0%, respectively, while its lowest weekly user

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retention rate for the corresponding periods was 2.8%, 7.5%, 7.1% and 7.6%, respectively. The average weekly user retention rate of *Football Master* (足球大師) during such periods was generally comparable to the industry average as provided in the Frost & Sullivan Report. For details, please refer to the section headed “Competition” in this section for the industry average weekly user retention rates.

NBA Basketball Master (NBA籃球大師)



Game Interface of NBA Basketball Master (NBA籃球大師)

Our second flagship game, *NBA Basketball Master* (NBA籃球大師), launched in September 2017, is a mobile basketball management simulation game with IP right licenses from NBA and NBPA. This game combines team management simulation, players’ deployment with matching and tactical allocation. We obtained IP right licenses from NBA and NBPA, which allowed the synchronization of game setting with real time sports event updates, such as the latest player statistics and season schedules, creating a comprehensive gameplay experience for users. Similar to *Football Master* (足球大師), this game enables users to communicate with each other and join multiplayer matches. This game offers in-game purchases of virtual items to enhance their gameplay experience.

As of the Latest Practicable Date, we launched the simplified Chinese and traditional Chinese versions in the PRC, Hong Kong, Macau and Taiwan.

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The operational data of this game during the Track Record Period are as follows:

	2019			For the year ended December 31						For the six months ended June 30,					
	PRC	Overseas ⁽¹⁾	Total	PRC	Overseas ⁽¹⁾	Total	PRC	Overseas ⁽¹⁾	Total	PRC	Overseas ⁽¹⁾	Total	PRC	Overseas ⁽¹⁾	Total
Total registered users	9,257,373	613,248	9,870,621	11,969,705	796,160	12,765,865	16,873,664	969,228	17,842,892	19,291,540	1,006,699	20,298,239			
Total new users	4,032,101	211,938	4,244,039	2,712,332	182,912	2,895,244	4,903,959	173,068	5,077,027	2,417,876	37,471	2,455,347			
Average DAUs	68,239	6,824	75,063	63,200	4,631	67,831	56,402	3,298	59,700	61,311	2,012	63,323			
Average MAUs	461,653	44,696	506,349	336,416	26,225	362,641	497,465	20,439	517,904	490,429	9,562	499,991			
Active users retention rate (%)	6.6	10.7	6.8	4.1	12.8	4.6	7.6	6.7	7.6	3.9	3.4	3.8			
Average MPUs	42,839	2,474	45,313	44,257	1,545	45,802	31,000	1,104	32,104	34,910	540	35,450			
Paying users retention rate (%)	4.5	6.8	4.6	5.3	7.6	5.4	3.7	7.2	3.8	4.7	6.0	4.8			
ARPPU (RMB)	362	562	372	389	797	403	454	752	464	395	995	404			
Acquisition cost per new user (RMB) ⁽²⁾	—	—	8.9	—	—	11.6	—	—	5.9	—	—	4.3			

Notes:

1. The operational data of our game in overseas jurisdictions include users initially registering our games with recorded overseas IP addresses. For illustrative purpose only, overseas includes the regions outside the PRC, including Hong Kong, Macau, Taiwan and other regions.
2. The acquisition cost per new user is calculated holistically without differentiating users from the PRC and overseas markets as our advertisements and marketing activities were mainly conducted on various online platforms or channels accessible to users across different countries.

According to the Frost & Sullivan Report, *NBA Basketball Master* (*NBA籃球大師*) is considered to be at its stable and mature stage of its lifecycle during the Track Record Period with the expected remaining lifecycle of approximately 57 months before reaching its final stage as of the Latest Practicable Date (based on the time difference between the launch time of the game and the baseline of ten year lifecycle of a Model B game). According to Frost & Sullivan Report, temporary fluctuations in the number of users of a Model B game, such as declining average DAUs, average MAUs and average MPUs but with a relatively higher ARPPU when compared with those at the early growth stage are common and may not be indicative of the end of the stable and mature stage. For further details on the features on each stage of the lifecycle of a Model B mobile sports game, please refer to “— Our Games Pipeline — Lifecycle of our games”.

Our total registered users experienced an increase of approximately 29.3% from 2019 to 2020 and a further increase of approximately 39.8% from 2020 to 2021, with a CAGR of approximately 34.5% from 2019 to 2021. Such continuous growth was contributed by our consistent optimization of the game by integrating users’ feedback to attract new users and the increased exposure of the game on various third-party distribution platforms, such as Apple AppStore, OPPO and Vivo, as a result of more featuring and recommendation placements on those third-party platforms.

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On one hand, its average DAUs and average MAUs decreased by approximately 9.6% and 28.4% from 2019 to 2020, respectively, as our Group devoted less additional marketing and promotional efforts on the game to retaining inactive and less loyal users with low paying propensity and purchasing capability during the year. The average DAUs decreased by approximately 12.0% from 2020 to 2021 whereas the average MAUs increased by approximately 42.8% during the same period, which was mainly due to the increased exposure of *NBA Basketball Master* (*NBA籃球大師*) on various third-party platforms, such as OPPO and Vivo which attracted more new users. Nevertheless, these new users did not maintain activeness on a daily basis. As a result, we recorded an increasing MAUs while a decreasing DAUs for *NBA Basketball Master* (*NBA籃球大師*) from 2020 to 2021. The average MPUs decreased by approximately 29.9% from 2020 to 2021 as our Group had then allocated more resources on the preparation and launching of various foreign language versions of *Football Champion* (*最佳11人 — 冠軍球會*) as well as planning our new mobile sports games in the pipeline, thus diverting our management attention and resources from devising more monetization strategies to convert more non-paying users of *NBA Basketball Master* (*NBA籃球大師*) into paying users during 2021.

Nevertheless, our ability to continuously engage and retain our core group of paying users with high paying potential and purchasing capability is illustrated by our continuous growth of ARPPU, which increased at a CAGR of approximately 11.7% from 2019 to 2021. This is achieved by our continuous efforts to enhance and upgrade our games through offering newly-released content and increased selection of in-game virtual items.

For the six months ended June 30, 2022, we continued to experience an increase of total registered users by approximately 2.5 million to approximately 20.3 million from approximately 17.8 million as at December 31, 2021 in the PRC and overseas markets. Despite the slight decrease of average MAUs of the game by approximately 3.5% for the first six months ended June 30, 2022 when compared with the year ended December 31, 2021, the average DAUs and MPUs experienced increases by approximately 6.1% and 10.4%, respectively due to our promotional effort and strategy to attract and monetize daily active and paying users in the PRC during the Lunar New Year festival as mentioned below.

The ARPPU for the six months ended June 30, 2022 decreased by approximately 12.9% when compared with the ARPPU during the year ended December 31, 2021, primarily due to our promotional effort to convert more non-paying users into paying users in the PRC by launching promotional events during the Lunar New Year festival to stimulate user activity and in-game spending, where in-game virtual items were offered to our users at discounted rates, thereby successfully boosted the average MPUs in the PRC by approximately 12.6% from 31,000 for the year ended December 31, 2021 to 34,910 for the six months ended June 30, 2022, who on average spent less due to the sale discount on in-game virtual items during the period.

The acquisition cost per new user of *NBA Basketball Master* (*NBA籃球大師*) increased by approximately 30.3% from RMB8.9 for the year ended December 31, 2019 to RMB11.6 for the year ended December 31, 2020 due to our strategy to incur more advertising and marketing expenses to focus on the promotional activities to retain our existing core group of loyal users during the year. The acquisition cost per new user then decreased to RMB5.9 for the year ended December 31, 2021 and further to RMB4.3 for the six months ended June 30, 2022, mainly due to our efforts to attract new users by the increased exposure of the game on various third party distribution platforms such as Apple AppStore, OPPO and Vivo.

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Our Group has continuously implemented various marketing and promotional strategies and activities to engage and retain the existing core group of users of *NBA Basketball Master* (*NBA籃球大師*) as well as maximize the monetization thereof, which are set forth as follows:

- *Optimize user experience*

We released updates to *NBA Basketball Master* (*NBA籃球大師*) which were tailor-made to our promotional events. For example, we regularly hold an in-game Elite Spearing Session (精英競技場) which provides trials for our users to use certain elite NBA players that are currently not under their possession. By doing so, users can experience deploying such virtual NBA players in their team to compete against other players in a tournament where the top ranking users would be rewarded with extra in-game virtual items. Elite Spearing Session (精英競技場) was first introduced in June 2019. We offered various log-in incentives, including redemption of certain NBA players by daily log-in by users for certain consecutive days, and/or fulfillment of activities, such as upon the completion of a certain number of NBA matches within a certain period. Also, we offered discounts and special virtual gifts as users spend more in the game. In line with the NBA basketball match season in the United States, we constantly updated the team profiles to reflect the real-life dynamics, usually between October and June every year. We sometimes invited popular NBA athletes to interact with our users of the game through the in-game channels.

The following graphics illustrate the abovementioned in-game activities we implemented to optimize our user experience of *NBA Basketball Master* (*NBA籃球大師*):

The Elite Spearing Session



Discount and special virtual gifts



- *Stimulate in-game spending*

We carried out certain promotional events to stimulate our users' in-game spending in *NBA Basketball Master* (*NBA籃球大師*), which typically include the introduction of new NBA players and limited virtual items. For example, we introduced new NBA players each month and gifts such as basketball jersey of popular NBA teams, thereby incentivizing users to spend more to acquire such new NBA players in order to strengthen the ability of their virtual teams. Other seasonal promotions were also held during festive occasions, for example, Lunar New Year, National Day holidays, Double 11 Shopping Season, Christmas, etc., during when users are expected to spend more leisure time on entertainment activities, such as our *NBA Basketball Master* (*NBA籃球大師*). During such holidays, we held a series of promotional activities to offer various virtual items to incentivize users' in-game spending.

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The following graphics illustrate the abovementioned promotional activities we implemented to stimulate in-game spending of *NBA Basketball Master* (*NBA籃球大師*):

Regular introduction of new NBA players



Seasonal Promotion during Double 11 Shopping Season



- *Retain our users and increase user stickiness*

We offered monthly and seasonal sale packages and provided our users daily log-in incentives which encouraged users to log into our game regularly to enjoy purchase discount on or obtain free virtual NBA players and virtual items. We also, from time to time, added new game mode which encourages our users to extend their social activities in the game. For example, we launched a new confrontational game mode to allow users to create a guild and battle with other guilds in the Elite Arena (精英竞技场). As such, we enabled our users to gain in-game social bonding by teaming up with other users participating in the Elite Arena (精英竞技场), which increases their stickiness to the game as a result of the increased level of game interaction with other users. We also introduced occasional in-game features including: (a) NBA Knowledge Quizzes (NBA課堂) where users can experience a new challenge to obtain rewards (such as in-game virtual gifts) by answering quizzes comprising questions on NBA history and players. NBA Knowledge Quizzes (NBA課堂) were first introduced in July 2018; (b) Taco Tuesdays (塔克星期二) where users can gain rewards (such as in-game virtual gifts) by using in-game tools to create virtual Taco that increases their in-game engagement through new game experiences. Taco Tuesday (塔克星期二) was first introduced in December 2020 and was opened for users on quarterly basis thereafter; and (c) Star Players' Convenient Stores (球星便利店) where users can obtain virtual rewards and items after completing certain in-game tasks to redeem virtual store products to enhance the ability of the virtual NBA star players. Star Player's Convenient Stores (球星便利店) was introduced in March 2021 and was made available to users on monthly basis thereafter. These features aim to simulate interaction between our users and the popular star players. Moreover, we may attempt to re-activate our relatively less active users by offering extra gifts and sending notification of our new in-game promotions and events to incentivize them to revisit and log in our game, *NBA Basketball Master* (*NBA籃球大師*).

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The following graphics illustrate the abovementioned activities we implemented to retain our users and increase user stickiness of *NBA Basketball Master* (*NBA籃球大師*):

Elite Arena (精英競技場)



NBA Knowledge Quizzes (NBA課堂)



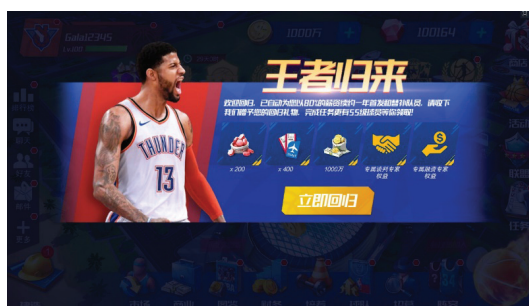
Taco Tuesdays (塔克星期二)



Star Players' Convenient Store (球星便利店)



Extra gifts to less active users



For the three years ended December 31, 2021 and the nine months ended September 30, 2022, the average weekly user retention rate of *NBA Basketball Master* (*NBA籃球大師*) was 15.9%, 18.0%, 10.1% and 11.0%, respectively. The highest weekly user retention rate of *NBA Basketball Master* (*NBA籃球大師*) during the same periods was 20.7%, 32.9%, 17.9% and 13.0%, respectively, while its lowest weekly user retention rate for the corresponding periods was 12.9%, 7.6%, 7.7% and 9.1%, respectively. The average weekly user retention rate of *NBA Basketball Master* (*NBA籃球大師*) during such periods was generally comparable to the industry average as provided in the Frost & Sullivan Report. For details, please refer to the section headed “Competition” in this section for the industry average weekly user retention rates.

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Football Champion (最佳11人 — 冠軍球會)



Game Interface of Football Champion (最佳11人 — 冠軍球會)

Leveraging our success of *Football Master (足球大師)* and *NBA Basketball Master (NBA籃球大師)*, we developed and launched *Football Champion (最佳11人 — 冠軍球會)* in April 2020. It is a football management simulation game for which we obtained IP right licenses from renowned sports league, sports associations and sports clubs, including FIFPro, Juventus F.C., F.C. Bayern Munich, Manchester City F.C., Paris Saint-Germain F.C., Borussia Dortmund and F.C. Barcelona. This game incorporates 3D features and advanced technology in order to enhance the reality of gameplay. The development of *Football Champion (最佳11人 — 冠軍球會)* was built upon our operational experiences and users’ feedback received from *Football Master (足球大師)*. It led us to create a more advanced game tailored for sports game lovers who are looking for more sophisticated graphics and more realistic gameplay with up-to-date top ranking football clubs and players. This game offers in-game purchases of virtual items to enhance their gameplay experience.

As of the Latest Practicable Date, we launched various language versions, namely, simplified Chinese, traditional Chinese, English, Thai, Indonesian, Vietnamese, Korean and Japanese. We plan to further launch the Italian and Spanish versions around the first half of 2023.

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The operational data of this game during the Track Record Period are as follows:

	For the year ended December 31									For the six months ended June 30,		
	2019 ⁽¹⁾		Total	2020 ⁽¹⁾⁽²⁾		Total	2021		Total	2022		Total
PRC	Overseas ⁽³⁾	PRC		Overseas ⁽³⁾	PRC		Overseas ⁽³⁾	PRC		Overseas ⁽¹⁾		
Total registered users	13,678	11	13,689	880,675	8,350	889,025	1,473,739	3,974,964	5,448,703	1,883,048	5,997,028	7,880,076
Total new users	13,678	11	13,689	866,997	8,339	875,336	593,064	3,966,614	4,559,678	409,309	2,022,064	2,431,373
Average DAUs	2,141	2	2,143	17,016	152	17,168	18,660	62,451	81,111	26,892	105,862	132,754
Average MAUs	13,677	11	13,688	96,171	861	97,032	82,706	422,341	505,047	110,823	530,272	641,095
Active users retention rate (%) ⁽²⁾	—	—	—	—	—	—	7.5	—	7.5	9.0	7.7	7.9
Average MPUs	1,037	2	1,039	14,264	118	14,382	15,316	27,487	42,803	25,466	31,625	57,091
Paying users retention rate (%) ⁽²⁾	—	—	—	—	—	—	4.9	—	4.9	9.0	6.3	7.1
ARPPU (RMB)	69	13	69	256	705	259	505	244	337	680	355	500
Acquisition cost per new user (RMB) ⁽⁴⁾	—	—	28.9	—	—	23.7	—	—	10.2	—	—	23.2

Notes:

1. The operational data of *Football Champion* (最佳11人 — 冠軍球會) for the year ended December 31, 2019 and for the first three months ended March 31, 2020 was generated from the public testing.
2. *Football Champion* (最佳11人 — 冠軍球會) was launched in the PRC in April 2020 and subsequently in the overseas markets in 2021.
3. The operational data of our game in overseas jurisdictions include users initially registering our games with recorded overseas IP addresses. For illustrative purpose only, overseas includes the regions outside the PRC, including Hong Kong, Macau, South Korea, Vietnam and other regions.
4. The acquisition cost per new user is calculated holistically without differentiating users from the PRC and overseas markets as our advertisements and marketing activities were mainly conducted on various online platforms or channels accessible to users across different countries.

According to the Frost & Sullivan Report, as of the Latest Practicable Date, *Football Champion* (最佳11人 — 冠軍球會) is considered to be at the stable and mature stage of its lifecycle with the expected remaining lifecycle of approximately 88 months before reaching its final stage (based on the time difference between the launch time of the game and the baseline of ten year lifecycle of a Model B game).

Our total registered users significantly increased by approximately 512.9% from 2020 to 2021 which was mainly due to our efforts in expanding into overseas markets by launching *Football Champion* (最佳11人 — 冠軍球會) in Hong Kong, Vietnam and South Korea during August and September 2021. In light of our expansion in overseas markets, the average DAUs and average MAUs experienced significant increase by approximately 372.5% and 420.5%, respectively from 2020 to 2021. Our average MPUs also increased by approximately 197.6% from 2020 to 2021 which was mainly due to (i) our utilization of data analytics tools which enable us to precisely offer suitable selection of virtual items to our users and convert more non-paying users to paying users. Such data analytics tools allowed us to keep track of users activities after they came across our online advertisements and downloaded our games, from when we were able to monitor such users activities, including timing of game log-in and frequency of purchase and use of virtual items; (ii) our tailor-made promotional activities for overseas users to stimulate their in-game purchases as game contents were localized and displayed in different versions to target local users. For instance, usually users from Japan would have a stronger preference towards Japanese players in well-known football teams, hence, when carrying out promotional activities in Japan, we tend to customize contents with such virtual players to appeal to local users in Japan, and (iii) our abovementioned efforts in

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enhancing the gameplays and upgrading the visualisation features of the virtual players which stimulate the willingness to purchase virtual items by our users. Correspondingly, our ARPPU increased by approximately 30.1% during the same period.

We continued to record substantial growth on the operational performance of *Football Champion* (最佳11人 — 冠軍球會) for the six months ended June 30, 2022. Compared with that as at December 31, 2021, our total registered users in the PRC and overseas increased by approximately 2.4 million as at June 30, 2022. Also, compared with the year ended December 31, 2021, the average DAUs, MAUs and MPUs increased by approximately 63.7%, 26.9% and 33.4%, respectively, which were largely contributed by our continuous marketing efforts and increasing popularity of the game in the PRC and overseas markets. Riding on the successful marketing campaigns of *Football Champion* (最佳11人 — 冠軍球會) in the first half of 2022, our Directors believe that this game would continue to grow successfully beyond the existing reach to other overseas markets, such as Italy and Spain where we plan to launch the foreign language versions in the first half of 2023.

The acquisition cost per new user of *Football Champion* (最佳11人 — 冠軍球會) decreased by approximately 57.0%, from RMB23.7 for the year ended December 31, 2020 to RMB10.2 for the year ended December 31, 2021 due to our Group’s intensified advertising and marketing expenses to acquire and expand the user base after the game launch in the PRC in April 2020 which resulted in a prolonged impact on the increase in new users in 2021, together with our successful expansion of the game into the overseas markets during the second half of 2021 in attracting a mass of new users in 2021. The acquisition cost per new user then increased by approximately 127.5% to RMB23.2 for the six months ended June 30, 2022 as we further intensified our advertising and marketing efforts to launch massive online advertising activities on various online platforms such as Facebook, Google, Tiktok and Twitter to promote the game in the overseas markets.

Our Group implemented various strategies and activities which aimed to attract and retain new users since the initial launch by expansion of different language versions, and to stimulate existing and new users’ engagement and in-game spending during the Track Record Period, which are set out as follows:

- *Optimize user experience*

Since the launch of *Football Champion* (最佳11人 — 冠軍球會), we released in-game activities which were tailor-made to optimize game experience for our users. These included: (i) Pitch New Star (綠茵新星), an in-game tournament where the users’ virtual football team is ranked against each other and the one with the highest ranking would be rewarded with extra virtual football players and items. Pitch New Star (綠茵新星) aimed to provide users with new experience to compete with each other for higher ranking and rewards. To strengthen the ability of their virtual teams, hence ranking, users needed to participate in more in-game football matches and activities; (ii) League of Rankings (排位賽) was held on quarterly basis where users strived to level up the ranking of their virtual football teams by playing and winning against the teams of other users. Those virtual football teams with top ranking would be rewarded with virtual gifts and other in-game items. It provides realistic competition experience to users participating in the League of Rankings (排位賽) against other real-life users; (iii) New Players Carnival (新手嘉年華) aimed to welcome and offer new users with limited virtual football players, gifts and other in-game items after they accomplished a certain number of in-game tasks and missions within a specified period.

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The following graphics illustrate the abovementioned in-game activities we implemented to optimize our user experience of Football Champion (最佳11人 — 冠軍球會)

Pitch New Star (綠茵新星)



League of Rankings (排位賽)



New Players Carnival (新手嘉年華)



- *Stimulate users to spend*

We released in-game activities with the aim to stimulate new users' spending in the game and convert non-paying users into paying users. Gift Pack Shopping (禮包搶購) was promoted to offer users purchase discount on sale package of virtual items within the specific promotional period. It also encouraged users to acquire limited virtual items with special discount offered during the promotional period. New Players Party (新手狂歡) also aimed to target and provide new users with discounts on in-game item purchase within certain periods, which resulted in more new users being converted into paying users.

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The following graphics illustrate the abovementioned in-game activities we implemented to stimulate users to spend in *Football Champion* (最佳11人 — 冠軍球會)

Gift Pack Shopping (禮包搶購)



New Players Party (新手狂歡)



- Retain new users and increase user stickiness

To retain new users, we launched different in-game rewards for those who newly registered our game. Seven Days Log-in Rewards (七天登錄獎勵) and Monthly Log-in Rewards (每月簽到) are in-game activities where newly registered users can acquire free virtual players, gifts and other in-game items by logging into the game on a daily basis for a consecutive of seven days and a month, respectively, to thereby foster a sense of user stickiness to our game. *Football Champion* (最佳11人 — 冠軍球會) has incorporated an in-game feature, Adding Friends Feature (加入好友), to enable users to make friends, communicate and form team groups with each other in the game, thereby enhancing their in-game interaction with other users and increasing their time spent in the game.

The following graphics illustrate the abovementioned in-game activities we implemented to retain new users and increase user stickiness in *Football Champion* (最佳11人 — 冠軍球會).

Seven Days Log-in Rewards (七天登錄獎勵)



Monthly Log-in Rewards (每月簽到)



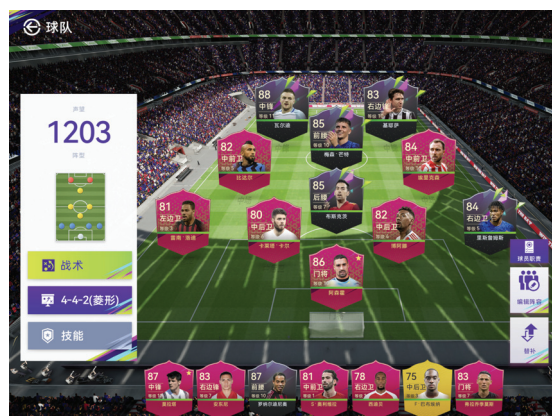
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Adding Friends Feature (加入好友)



For the two years ended December 31, 2021 and the nine months ended September 30, 2022, the average weekly user retention rate of *Football Champion* (最佳11人 — 冠軍球會) was 20.2%, 20.6% and 20.0%, respectively. The highest weekly user retention rate of *Football Champion* (最佳11人 — 冠軍球會) during the same periods was 32.1%, 28.9% and 25.8%, respectively, while its lowest weekly user retention rate for the corresponding periods was 13.1%, 15.8% and 16.0%, respectively. The average weekly user retention rate of *Football Champion* (最佳11人 — 冠軍球會) during such periods was generally higher than the industry average as provided in the Frost & Sullivan Report. For details, please refer to the section headed “Competition” in this section for the industry average weekly user retention rates.

Total Football (最佳球會)



Game Interface of Total Football (最佳球會)

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Launched in July 2022, *Total Football* (最佳球會) is a football action simulation game with management simulation elements for which we obtained IP right licenses from renowned sports association and sports club, including FIFPro and Manchester City F.C. This game incorporates the state of art 3D gameplay scenes and more advanced AI technology which provide users with more features to virtually experience real life sport matches by the applications of manual steering skills. This football action simulation game allows users to fully operate and control the process of the football matches by manually steering players to perform complex in-game motions, such as running, dribbling, passing, shooting and tackling. Users can train and enhance the skill attributes by practising more in the game. The game aims to create more realistic simulation to mimic the real life performance of the football players to enhance users engagement as well as user experience by reducing latency, streamlining downloading and installation process and improving device adaptability. Incorporated with management simulation elements, users can also create their personalized team and devise tactics to differentiate their own teams from others by identifying and exploiting weaknesses of the rival teams. Besides, users can experience different modes of leagues and tournaments, through participating in online battles with other users and by interacting and socializing with each other, our users are enabled to create their own in-game communities and build up social bondings in our game. The game offers in-game purchases of virtual items to enhance their gameplay experience.

Since its launch in July 2022 and up to September 30, 2022, the average weekly user retention rate of *Total Football* (最佳球會) was 23.6%. The highest weekly user retention rate of *Total Football* (最佳球會) during the same period was 29.3%, while its lowest weekly user retention rate for the corresponding period was 14.7%. The average weekly user retention rate of *Total Football* (最佳球會) since its launch and up to September 30, 2022 was higher than the industry average as provided in the Frost & Sullivan Report. For details, please refer to the section headed “Competition” in this section for the industry average weekly user retention rates.

In order to facilitate the penetration of our *Total Football* (最佳球會) in the targeted markets, we engaged Ronaldinho Gaucho, a world-renowned football player, as our game ambassador for one year commencing from June 1, 2022. We have featured the image of Ronaldinho Gaucho in the game logo of *Total Football* (最佳球會) and released the promotional video shot by Ronaldinho Gaucho and other KOLs on various social media platforms such as Tiktok, Weibo, Facebook, Twitter, Youtube and Instagram. We will continue to strengthen our collaboration with Ronaldinho Gaucho with an aim to increasing the game awareness and expanding the user base of our *Total Football* (最佳球會).

As a recognition to the game’s attractive gameplay scene with high-quality visualization effect, Apple AppStore featured and demonstrated *Total Football* (最佳球會) on the display of Apple iPad model.

As of the Latest Practicable Date, we launched various language versions, including simplified Chinese, English, German, French and Italian. We plan to further launch traditional Chinese and Spanish versions around first half of 2023.

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Revenue generated from our existing games portfolio

The following table sets forth a summary of our revenue generated from the existing games portfolio during the Track Record Period:

	For the year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(Unaudited)									
<i>Football Master</i> (足球大師)	174,693	47.1	145,369	36.0	134,988	29.4	67,546	37.3	55,264	18.7
<i>NBA Basketball Master</i> (NBA籃球大師)	195,905	52.9	216,479	53.7	176,693	38.4	80,703	44.6	83,715	28.4
<i>Football Champion</i> (最佳11人 — 冠軍球會)	68	*	41,368	10.3	148,170	32.2	32,725	18.1	155,796	52.9
Total revenue generated from such games	370,666	100.0	403,216	100.0	459,851	100.0	180,974	100.0	294,775	100.0

* Less than 0.1%

For the years ended December 31, 2019, 2020 and 2021, our total revenue demonstrated a stable growth with a CAGR of approximately 10.2% at RMB378.6 million, RMB404.7 million and RMB459.9 million, respectively. For the six months ended June 30, 2022, our total revenue increased significantly by approximately RMB113.8 million, or 62.9%, to approximately RMB294.8 million from approximately RMB181.0 million for the corresponding period in 2021. In order to maintain our profitability, we implemented the aforesaid measures including launching version upgrades with new contents and gameplays and adjusting our marketing and promotional activities in line with the evolving market trend. For details of the historical trend of our revenue and other items of the consolidated statements of comprehensive income of our Group during the Track Record Period, please refer to “Financial Information — Description of Major Components of Our Results of Operations”.

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Discontinued games

During the Track Record Period, we had two discontinued games, details of which are as follows:

Chinese Super League (冠軍中超OL)

Launched in May 2018, *Chinese Super League (冠軍中超OL)* was a football management simulation game that we co-developed with a third party game publisher based in Tianjin, the PRC with the IP right license from China Football Association Super League (中國足球協會超級聯賽), a national football league based in the PRC, to feature the photos, profiles and latest statistics of over 500 athletes of the league for this game, in order to provide a realistic and comprehensive user experience. Earlier in March 2017, we entered into an agreement with the third party game publisher based in Tianjin, the PRC in relation to the development and publication of *Chinese Super League (冠軍中超OL)*. Pursuant to the agreement, we were responsible for the game development and subsequent optimization, maintenance and upgrade of the game after its publication, in accordance with specifications as agreed with our partner. In return, we would receive a certain percentage of the revenue generated by this game. Our partner was then responsible for securing the relevant IP right license, publishing, marketing and promotion and operation of the game, in particular, to design the marketing campaigns and determine the timetable and contents of each game update, and the artistic design of user interface back-end infrastructure. Since we were required to discuss with our partner during the process of the game development and subsequent optimization, upgrades and maintenance of the game before implementation, we had incurred considerable time and resources to negotiate with our partner regarding the strategic planning of this game.

This game offered a Chinese version for users in the PRC.

The operational data of this game during the Track Record Period as follows:

	For the year ended December 31,					
	2019			2020 ⁽²⁾		
	PRC	Others ⁽¹⁾	Total	PRC	Others ⁽¹⁾	Total
Total registered users	13,545	145,013	158,558	14,048	145,882	159,930
Total new users	380	29,864	30,244	503	869	1,372
Average DAUs	53	941	994	163	87	250
Average MAUs	154	4,201	4,355	415	331	746
Average MPUs	19	737	756	45	61	106
ARPPU (RMB)	1,570	746	767	861	296	536

Notes:

- The operational data of our game as categorized as “others” include (i) users initially registering our games with recorded overseas IP addresses; and (ii) users whose IP addresses were not recorded at registration or at first log-in. For illustrative purpose only, the PRC excludes Hong Kong, Macau and Taiwan.
- Chinese Super League (冠軍中超OL)* was launched in May 2018 and discontinued in August 2020.

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This game was discontinued in August 2020 because our Group decided to allocate our resources to focus on other sports games with higher popularity; and we realize that the model of co-development would incur considerable costs and resources in negotiating with the partner, leading to an inefficient operational process. As a result, our Directors consider that it would be in the best interests of our Group to cease the provision of support, maintenance and upgrades to the game under the co-development arrangement.

Idol Love Story (戀愛吧!偶像)

Launched in the PRC in September 2019, *Idol Love Story (戀愛吧!偶像)* was an interactive card game within love simulation genre, mainly targeting a female user base. In March 2018, we entered into an agreement with a third party game developer and publisher to develop the game on a commission basis, with determined storyline and script, in return for a revenue sharing based on a certain percentage range varying on different distribution platforms. Pursuant to the agreement, our partner was responsible for providing the storyline and script, art design (including character and scenery design), localization of different language versions and game operation plan, while we were responsible for the game development (including model design, front-end development and testing) and the subsequent game upgrades and maintenance after its publication.

In November 2020, we decided to discontinue our resource allocation into this game since the profitability of the game was lower than our other mobile sports games. The comparatively lower profitability was mainly because the storyline and script provided by our partner turned out not as appealing to the users as expected. Therefore, we realized that such model of game development would not only incur considerable costs and resources in negotiating with the partner, but also result in the outcome of the quality of game beyond our original expectation and control. As a result, our Group decided to allocate our resources and place our primary focus on the development and operation of our existing and new mobile sports games.

The operational data of this game during the Track Record Period as follows:

	For the year ended December 31,					
	2019 ⁽²⁾			2020 ⁽²⁾		
	PRC	Overseas ⁽¹⁾	Total	PRC	Overseas ⁽¹⁾	Total
Total registered users	229,374	3,399	232,773	668,227	7,750	675,977
Total new users	229,374	3,399	232,773	438,853	4,351	443,204
Average DAUs	5,385	183	5,568	3,365	76	3,441
Average MAUs	62,977	1,017	63,994	45,795	511	46,306
Average MPUs	2,919	78	2,997	1,082	21	1,103
ARPPU (RMB)	62	247	67	37	173	40

Notes:

- The operational data of our game in overseas jurisdictions include users initially registering our games with recorded overseas IP addresses. For illustrative purpose only, the PRC excludes Hong Kong, Macau and Taiwan.
- Idol Love Story (戀愛吧!偶像)* was launched in September 2019 and discontinued in November 2020.

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Revenue generated from our discontinued games

The following table sets forth a summary of our revenue generated from our discontinued games during the Track Record Period:

	For the year ended December 31, 2019		2020	
	RMB'000	%	RMB'000	%
<i>Chinese Super League</i> (冠軍中超OL)	7,205	90.5	857	56.0
<i>Idol Love Story</i> (戀愛吧!偶像)	759	9.5	672	44.0
Total revenue generated from such games	7,964	100.0	1,529	100.0

New games

We have been expanding our game portfolio mainly through the self-development of new games and introducing new language versions of our existing games. As of the Latest Practicable Date, we are in the process of developing three new mobile sports games. The details of our new mobile sports games in the pipeline as of the Latest Practicable Date are set forth in the following table:

Title ⁽²⁾	Type and description ⁽²⁾	Stage of development ⁽²⁾	Language versions ⁽²⁾	Expected launch time ⁽²⁾	Target markets ⁽²⁾	Target customers demographics	Distribution platforms
<i>MLB Baseball Master</i> (MLB棒球大師)	Sports action simulation game with management simulation elements. This game combines team management simulation, players' management, training and matching with tactical deployment. Users can form their own baseball team to participate in the league tournaments and win the world championship. Users can fully operate and control the process of the baseball match by steering players to complete complex actions.	Game production	English Traditional Chinese Japanese Korean Simplified Chinese	December 2022 or January 2023 By February 2023 By March 2023 By March 2023 Subject to approval ⁽¹⁾	North America Taiwan East Asia (other than the PRC) The PRC	Adults	Apple AppStore/ Google Play
<i>NBA Basketball Action</i> (NBA操作籃球)	Sports action simulation game with management simulation elements. Users can completely manipulate the players to complete the game, and realize complex actions, such as complex dribbling, passing, shooting, rebounding and blocking. Users can also manage a basketball team, adjust tactics and experience different modes, career matches, as well as participate in online battles with other users.	Game production	Traditional Chinese English Simplified Chinese	Around 2nd half of 2023 Around 2nd half of 2023 Subject to approval ⁽¹⁾	Hong Kong, Macau, Taiwan North America The PRC	Adults	Apple AppStore/ Google Play/ Huawei, Xiaomi, OPPO, Vivo, Tencent Appstore

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Title ⁽²⁾	Type and description ⁽²⁾	Stage of development ⁽²⁾	Language versions ⁽²⁾	Expected launch time ⁽²⁾	Target markets ⁽²⁾	Target customers demographics	Distribution platforms
<i>NFL American Football Master</i> (NFL 橄欖球大師)	Sports action simulation game with management simulation elements. Users can build and manage an American football team by training players and mastering tactics, etc. Users can also perform different game tactics in a game, operate players to execute tactics and achieve scores, bringing to users an engaging American football game experience. Users can fully operate and control the process of the American football match by steering players to complete complex actions.	Game production	English	Around 2nd half of 2024	North America	Adults	Apple AppStore/ Google Play

Notes:

- (1) Game registration applications will be submitted to the relevant PRC government authorities once the development of our game is substantially completed. Subject to the relevant local laws and regulations, our Directors plan to launch these games in overseas markets at or around the time as indicated above without dependency on the formal launch date in the PRC. We also plan to submit registration application to the relevant PRC government authorities for *MLB Baseball Master* (MLB 棒球大師) and *NBA Basketball Action* (NBA 操作籃球) in December 2022/the first quarter of 2023 and the first quarter of 2023, respectively, and our Directors expect that the approval will be obtained around the second quarter of 2023 and the third quarter of 2023, respectively.
- (2) The game pipeline is indicative as of the Latest Practicable Date. The title, stage of development, language versions, expected launch time, major markets and other information of each game in the pipeline may be subject to further changes according to their respective development and market conditions.

The estimated payback period represents the approximate period from the launch of the game to the time when its accumulated net profit is able to cover the initial investment amount for the development of the game. The estimated payback period of *MLB Baseball Master* (MLB 棒球大師) is approximately 24 months. Having considered our Group’s previous experience in developing and operating the existing games and the similarities of game operation model between sports management simulation games and sports action simulation games, our Directors believe that the estimated payback period of *NBA Basketball Action* and *NFL American Football Master* to range from 18 to 24 months.

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The following tables set forth the details and timeframe of the proposed development plans⁽¹⁾ of our three new mobile sports games:

MLB Baseball Master (MLB棒球大師)

Actions plans	Expected time of commencement
1. Design, technical implementation and optimization of our game	Since February 2021 (on a continuous basis)
2. Production and enhancement of artistic effects, such as scene, characters, movement and user interface of our game	Since March 2021 (on a continuous basis)
3. Optimization of the overall gaming experience	From June 2021 (on a continuous basis)
4. Development and optimization of the peripheral systems, such as the users’ account management system, the in-App purchase system, the tutorial system for new users, the user community system, the alliance system, the messenger system, the point calculation system and other supporting or service-providing systems that are supplementary or are related to the systems supporting core gameplay functions and core growth systems of the game	From June 2021 (on a continuous basis)
5. Optimization of the visual rendering of our game	From June 2021 (on a continuous basis)
6. Enrichment and improvement of artistic effects and the game scene and user interface	From June 2021 (on a continuous basis)
7. Demo assessment	From October 2021 until official launch
8. Conducted close beta version testing by inviting selected group of users for on-site testing	In December 2021
9. Confirmation on the licensing arrangement with the relevant IP right holders	In December 2022 or January 2023
10. Preparation on publishing, promotion and marketing strategies, such as placing advertisements through various online platforms and offline channels (e.g. television advertisements during match broadcast and placing advertisements in stadiums)	Prior to official launch in North America
11. Official launch in targeted overseas markets	In December 2022 or January 2023
12. Submission of registration to the relevant PRC government authorities	In December 2022 or the first quarter of 2023
13. Obtaining registration approval from the relevant PRC government authorities	Around second quarter of 2023

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NBA Basketball Action (NBA操作籃球)

Actions plans	Expected time of commencement
1. Game art style settings	From March 2021 (on a continuous basis)
2. Commencement of AI programming of gaming content	From May 2021 (on a continuous basis)
3. Refinement of AI programming of gaming content	From June 2021 (on a continuous basis)
4. Design and development of the gameplay	From August 2021 (on a continuous basis)
5. Design and refinement of the numerical system of our game	From December 2021 to May 2022
6. Design and development of the peripheral systems, such as the users’ account management system, the in-App purchase system, the tutorial system for new users, the user community system, the alliance system, the messenger system, the point calculation system and other supporting or service-providing systems that are supplementary or are related to the systems supporting core gameplay functions and core growth systems of the game	From January 2022 (on a continuous basis)
7. Enrichment of artistic design of our game	From April 2022 (on a continuous basis)
8. Implementation and optimization of game scenes and characters	From July 2022 (on a continuous basis)
9. Demo assessment	From January 2023 to March 2023
10. Confirmation on the licensing arrangement with the relevant IP right holders	Around second half of 2023
11. Submission of registration to the relevant PRC government authorities	Around first quarter of 2023
12. Public testing	Prior to official launch
13. Preparation on publishing, promotion and marketing strategies, such as placing advertisements through various online platforms and offline channels (e.g. television advertisements during match broadcast and placing advertisements in stadiums as well as collaborating with popular athletes to promote our game)	Around second half of 2023
14. Official launch in targeted overseas market	Around second half of 2023
15. Obtaining registration approval from the relevant PRC government authorities	Around third quarter of 2023

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NFL American Football Master (NFL橄欖球大師)

Actions plans	Expected time of commencement
1. Development of overall set-up of prototyping	From May 2021 to September 2021
2. Game art style settings	From June 2021 (on a continuous basis)
3. Commencement of AI programming of game content	From August 2021 (on a continuous basis)
4. Design and development of the gameplay	From October 2021 to June 2022
5. Design and development of the peripheral systems, such as the users’ account management system, the in-App purchase system, the tutorial system for new users, the user community system, the alliance system, the messenger system, the point calculation system and other supporting or service-providing systems that are supplementary or are related to the systems supporting core gameplay functions and core growth systems of the game	From June 2022 (on a continuous basis)
6. Enrichment of artistic design of our game	From June 2022 (on a continuous basis)
7. Implementation and optimization of game scenes and characters	From October 2022 (on a continuous basis)
8. Confirmation on the licensing arrangement with the relevant IP rights holder	In or around January 2024
9. Demo assessment and public testing	From first half of 2024 (on a continuous basis)
10. Preparation on publishing, promotion and marketing strategies, such as placing advertisements through various online platforms and offline channels (e.g. television advertisements during match broadcast and placing more advertisements in stadiums)	From second half of 2024
11. Official launch in targeted overseas markets	Around second half of 2024

Note:

The proposed development plans are indicative as of the Latest Practicable Date. The action plans and expected time of official launch for each game may be subject to further changes according to their respective development and market conditions.

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Our competencies and established technologies required to develop and operate our new games in the targeted overseas markets

We believe our Group has accumulated sufficient experience and acquired the necessary technologies to develop and operate our new games in the pipeline, despite that we did not previously publish baseball or American football themed games. In July 2022, we launched our new mobile sports action simulation game, *Total Football* (最佳球會) in the PRC, New Zealand and Australia. Mobile sports action simulation games, in essence, are sports simulation games with additional features of allowing users to fully operate and control the process of the gameplay by manually steering players to perform complex in-game motions. While sports management simulation games mimic the dynamics in the real-life sports world and focus on the user’s ability of building up and managing a sports team by training players and mastering team formation tactics to beat the rival team in the automatic in-game battle, sports action simulation games may also be featured with such management simulation elements (as team formation and management technique would also determine the level of battle performance) yet the outcome of an in-game battle can also be largely affected by the steering skills of the users for the in-game battle being not automatic but manual.

In this regard, notwithstanding that some of our new games are of different sports types (i.e. baseball and American football) under the wider spectrum of sports simulation games and we plan to launch and expand our new games, particularly *MLB Baseball Master* (MLB棒球大師) and *NFL American Football Master* (NFL橄欖球大師), to capture the local popular sports types in the overseas markets such as North America, Japan, South Korea and Taiwan as the primary targeted markets, we believe we are well-equipped with the technologies required to develop and operate high-quality and entertaining sports action simulation games with management elements in the targeted overseas markets by applying our self-developed core game technologies and riding on our experience accumulated from the development and operation of sports management and action simulation games.

The Directors believe that the core game technologies required, such as network infrastructure, rendering engines, and automatic 3D facial model, for developing sports management simulation games and sports action simulation games are largely similar. For example, our arena rendering engine, which enhances and optimizes the rendering effects of the scenes of gameplay to manifest the high resolution visual effect of grassland, audience at the stadium, facial expression and muscle movement of players in the matches as well as textile fabric dynamics of players’ jersey, is applicable to the development of both sports management simulation games and sports action simulation games. Also, we have already applied crucial technologies for the development of the sports action simulation games, such as AI technology developed through the past years of efforts, on our new sports game, *Total Football* (最佳球會). In addition, we refined our motion and physics engines to optimize the instant graphic response to manual commands by users. As such, with the support of our core game technologies including those applicable to both sports management simulation games and sports action simulation games, the Directors believe that our Company is able to develop high-quality and entertaining sports action simulation games. For further details of the technologies that we possess, please refer to the section headed “Business — Game Technology”.

By the same token, the core game technologies required to develop baseball and American football related games are substantially similar as that used for developing our existing games, despite their difference in sport types. The major alterations required to be made specifically for the baseball and American football related games would be (i) the game contents designed for the respective sport rules; and (ii) the graphical portraits of virtual players and arena to be based on real-life baseball and American football players and arena.

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Further, in order to provide users with more authentic and immersive experience in our games, we have engaged athletic professionals to act as our strategic advisers during the game development process. For example, we have engaged a former national baseball player and national baseball referee in the PRC and a baseball coach in the U.S. to contribute to the game design, development and operation of our *MLB Baseball Master* (*MLB棒球大師*) with a view to optimizing gameplay experience from the angle of a professional baseball player and fan. We plan to apply the same strategy in our game development process for *NFL American Football Master* (*NFL橄欖球大師*).

Our prior experience and success in introducing our existing sports simulation games to various overseas markets including Southeast Asia, South Korea, Taiwan and Japan would allow us to replicate the successful factors of our business model to mobile games of other sports types. In fact, the business model, including game development, negotiation for IP right licenses, implementation of different advertising and marketing strategies along the different stages of the game lifecycle as well as post-launch operations, optimization and promotions of baseball and American football-themed sports action simulation games are largely the same as those for our existing football and basketball management and action simulation games, with only minor adjustments tailored to the specific sport types such as the relevant IP right licenses, game ambassadors, target users and marketing events. Apart from acquiring the relevant IP right licenses, we will also engage famous athletes as game ambassadors for our new games. We will continue to ride on our historical success of engaging popular football players and NBA basketball players as game ambassadors for our existing games, which has been instrumental to enhancing the awareness and reputation of our games as well as expanding our user base in the overseas markets during the Track Record Period. We are formulating our marketing strategies in engaging popular overseas MLB players and NFL players as our game ambassadors for *MLB Baseball Master* (*MLB棒球大師*) and *NFL American Football Master* (*NFL橄欖球大師*) to establish our presence and game awareness in the overseas markets.

To facilitate the penetration of our new games (such as *MLB Baseball Master* (*MLB棒球大師*) and *NFL American Football Master* (*NFL橄欖球大師*)) into the targeted overseas markets, we have taken into account a comprehensive feasibility study on, among others, the market landscape, opportunities, competitions and entry barriers of each targeted overseas market of our new action simulation games when formulating the new games plans and strategies. To implement our strategies to capture the market demand for our new games in the overseas markets, we will focus on (i) contents localization, which not only expands the foreign language versions of our new games to cater for users from different countries but also introduces localized features in the game contents. In this regard, we have recruited local talents with relevant language skills and qualifications to contribute to our game development and operation, in particular, to our game content localization process and customer support service. We also plan to localize our new games in the targeted overseas markets through various activities, for instance, by introducing local artistic design, gameplays and elements of popular local culture as well as introducing special in-game activities and promotional events in connection with local festivals; (ii) collaboration with third party partners with established local resources and experiences to publish and promote our games in the overseas markets. We will take into account whether or not it would be more cost-effective to cooperate with other third party publishers or advertising agents with more established market resources, distribution networks and experience to promote our games in our targeted overseas markets. For instance, as of the Latest Practicable Date, we have established a strategic partnership with Garena with an aim to further market and promote our games through the websites and platforms operated by Garena in overseas markets from time to time. We have maintained regular dialogue with Garena regarding our new game development status, and aim to formalise specific partnership for our new games subject to agreement on specific business cooperation terms and conditions in response to the

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targeted launch markets and rollout time of our pipeline games; (iii) device adaptability tailored for different specifications required by a variety of popular smart phone models in the local markets. For example, we perform system modifications of our new games according to the prevailing smart phone models in the local markets; and (iv) online advertisements through inviting overseas KOLs to join our game competitions and livestream the gameplay on major social media platforms, as well as promotion by engaging famous athletes with high popularity in overseas markets as our game ambassadors. Leveraging our strong data analytical tools which allow us to tailor our online advertising strategies to precisely target different overseas markets based on the users’ in-game behavioral patterns, we have been able to capture the market demand in the overseas markets as demonstrated by the increasing proportion of top up amount contributed by overseas users during the recent years. In addition to the increase in total top up amount of our Group at a CAGR of approximately 13.7% during the three years ended December 31, 2021, the contribution of top up amount from overseas users also increased from approximately 8.7% in 2020 to 23.5% in 2021 and further to 25.8% for the six months ended June 30, 2022. We believe our success in the overseas expansion of our existing games would allow us to devise and implement effective marketing campaigns and localization strategies to capture the market demand for our new games (such as *MLB Baseball Master* (*MLB 棒球大師*) and *NFL American Football Master* (*NFL 橄欖球大師*) in our targeted overseas markets.

In view of the above similarities between the development and operation of our Company’s new games in the pipeline and our existing games and our competencies and experience accumulated from the expansion of our existing games in overseas markets, our Directors are of the view that the extensive expertise and understanding in the mobile sports game market of our experienced and dedicated management team would enable us to formulate effective development plans and business strategies for the new sports action simulation games, including the baseball and American football themed games, in the primary targeted overseas markets such as North America, Japan, South Korea and Taiwan. In particular, our product vice president, Mr. Guo Yuheng, has provided valuable contribution from the perspective of action game development, which further strengthens our capabilities in the sports action simulation games regime. For details of the experience of our management team, please refer to the section headed “Directors and Senior Management”.

Considering the popularity of the sports types of our pipeline games in the targeted overseas markets, it is the current intention of our Group to firstly focus on the launch of our pipeline games in the overseas markets, before the introduction of these games to the mobile game users in the PRC. According to the Frost & Sullivan Report, with the increasing penetration level of mobile games in the PRC and the frequent introduction of overseas mobile games by local publishers, the global online sports game market has become highly integrated. Industry players in the PRC, including our Group, have been facing competition from not only local mobile game developers, but also games developed by overseas corporates with established presence and resources. For instance, among the top five market players as mentioned under the section headed “Industry Overview — Competitive Landscape Analysis” in this document, Company B is an American game company listed on Nasdaq Stock Market and Company D is a Japanese game company listed on the London Stock Exchange. Although the online sports game market is fragmented with many relatively small companies and usually dominated by a limited number of prominent market players, we believe we are well-positioned to capture the growing market opportunities by capitalizing on our track record and success factors in the development and operation of our existing mobile sports games to facilitate the launch of our pipeline games in both the PRC and overseas markets.

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Low risk of cannibalization among our existing and/or new mobile sports games in the pipeline

Despite some common features between sports management simulation games and sports action simulation games, they are not in direct competition primarily due to their key difference in core gameplay, targeting a different user group market. Essentially, sports management simulation games mimic the development of real-life sports events and focus more on strategising resource allocations through the management and training of sports team as a general manager, whereas, sports action simulation games focus more on the users’ manual steering skills. Accordingly, our Directors believe that there will be no significant potential negative cannibalization impact among our existing sports management simulation games as well as our existing and new sports action simulation games in the pipeline.

For details of the key differences between sports action simulation games and sports management simulation games, please refer to the section headed “Industry Overview — Overview of Online Sports Game Market In The PRC — Market segmentation of online sports games”.

Meanwhile, our Directors consider that the risk of cannibalization between our existing football-themed sports management simulation games, i.e. *Football Master* (足球大師) and *Football Champion* (最佳11人 — 冠軍球會) would be low based on the followings:

(i) Loyalty of core users of *Football Master* (足球大師)

According to the Frost & Sullivan Report, it is common that core users of a game who have devoted a lot of time and resources to gaining superiority over other competitors in the game would strive to maintain and reinforce their established ranking by further contributing more time and resources. There is a high switching cost for these core users to give up the superior ranking achieved in the existing game and to turn to another game from a beginner’s level. Our core users of *Football Master* (足球大師) have demonstrated a strong loyalty and user stickiness with a continuous increase of ARPPU during the three years ended December 31, 2021 at a CAGR of approximately 41.8% and a further increase by approximately 5.2% during the six months ended June 30, 2022 and that there has been no clear indication that the launch of *Football Champion* (最佳11人 — 冠軍球會) would have significant negative impact on the existing loyal user base of *Football Master* (足球大師). In this regard, there witnessed a continuous growth in ARPPU of *Football Master* (足球大師) of approximately 54.4% from 2019 to 2020 and a further increase by approximately 30.2% from 2020 to 2021, notwithstanding the launch of *Football Champion* (最佳11人 — 冠軍球會) in April 2020. This was attributable to our ability to constantly engage and retain the loyal and active core users who demonstrate high paying propensity and purchasing capability; and our strategy to maximize the monetization of these users. For instance, we launched new in-game features regularly, such as introducing new players and ranking events, to attract the paying users to maintain and increase their spending on virtual items and hence increasing the ARPPU of the game.

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(ii) **Different characteristics between *Football Master* (足球大師) and *Football Champion* (最佳11人 — 冠軍球會)**

Despite *Football Master* (足球大師) and *Football Champion* (最佳11人 — 冠軍球會) are both football-themed sports management simulation games, our Directors believe that the risk of cannibalization is low given our Group’s strategic differentiation in their core gameplay, target user groups, geographical market focus, monetization strategies and game user interface. The following table sets forth the specific differences in characteristics between *Football Master* (足球大師) and *Football Champion* (最佳11人 — 冠軍球會):

	<i>Football Master</i> (足球大師)	<i>Football Champion</i> (最佳11人 — 冠軍球會)
Core gameplay	The key to win a match is to form a team with proper combination of football players, which will require the users to have a good understanding of the strength and weakness of their own football players and that of the opponent team. Thus, users with better understanding of the strength of football players and management skills on the virtual team formation tend to outperform in the in-game battles more easily. More technical knowledge or sophistication is required for winning in the game.	Less strategy and understanding of football players is required to win in <i>Football Champion</i> (最佳11人 — 冠軍球會); instead, users with football players of higher competency level and enhanced virtual items tend to win in the match. Thus, the game is designed with features which enable users acquiring and utilizing more virtual items to enhance the ability of the virtual football players and teams to outperform in the in-game battles more easily.
Preferred game genre of targeted users	Sports games (particularly football games) featured with heavy strategy elements.	Simple card games or role-play games with light strategy elements.
Geographical market focus	Although <i>Football Master</i> (足球大師) has also been published in various foreign language versions, the game’s advertising and promotional activities mainly focus on users (mainly the core group of loyal paying users) in the PRC market with localised game features. Major in-game promotional activities are primarily targeted at the PRC game users during the Chinese festive seasons such as the Chinese New Year.	<i>Football Champion</i> (最佳11人 — 冠軍球會) has been customised with more contents localization with overseas football culture in order to enhance its marketing penetration in the overseas markets, and with more focused promotion and optimization strategies tailored to the overseas users (mainly new users), such as in Vietnam, South Korea and Japan, etc. Various promotional activities are customized and launched to game users in different overseas regions, for instance, by promoting “Happy Halloween (萬聖節快樂)” themed activities in November 2022 to offer more in-game items and game modes.

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	<i>Football Master (足球大師)</i>	<i>Football Champion (最佳11人 — 冠軍球會)</i>
Monetization Strategies	As <i>Football Master (足球大師)</i> has been launched and operated for over eight years since its launch in July 2014, the paying users of the game are likely dominated by the core group of loyal users with higher paying propensity and purchasing capabilities. As a result, our tailored monetization strategies are implemented to maximize such core group of loyal paying users’ in-game spending by offering in-game virtual items with higher unit price, as demonstrated by the ARPPU of RMB1,442 for the six months ended June 30, 2022.	As <i>Football Champion (最佳11人 — 冠軍球會)</i> has a relatively shorter operating history of over two years since its launch in April 2020, our marketing and monetization strategies are devised to mainly acquire and expand the user base in order to increase the number and stickiness of new users to the game, for instance by offering in-game virtual items with lower unit price, as demonstrated by the ARPPU of RMB500 for the six months ended June 30, 2022.
Game User interface	<i>Football Master (足球大師)</i> has been updated with fewer complex user interface settings to maintain minimal habitual change to the core group of loyal users so as to maintain their adaptability with the new updates after each game optimisation and upgrade.	The newly launched <i>Football Champion (最佳11人 — 冠軍球會)</i> has incorporated more variations in the user interface settings to allow more user interactions through different widgets in order to enhance user experience.

Besides, notwithstanding that both *Football Master (足球大師)* and *Football Champion (最佳11人 — 冠軍球會)* are football-themed sport management simulation games, their different launching time may give rise to a complimentary effect to the extent that the less loyal users, for instance users with relatively less interest in the core gameplay of *Football Master (足球大師)* can be captured by *Football Champion (最佳11人 — 冠軍球會)*. *Football Master (足球大師)*, was first launched in July 2014 and entered into the stable and mature stage of its lifecycle before the launch of *Football Champion (最佳11人 — 冠軍球會)* in April 2020. According to the Frost & Sullivan Report, it is common for a game during the stable and mature stage of its lifecycle to witness a retention loss of less loyal users who lose interest in the game overtime due to various reasons. As *Football Master (足球大師)* has stepped into the recession stage of its lifecycle as of the Latest Practicable Date, the less loyal users of *Football Master (足球大師)* may be captured by *Football Champion (最佳11人 — 冠軍球會)* which is an attractive alternative as the two games share a common sports theme and visual display quality, yet, possess different strategic characteristics in core gameplay.

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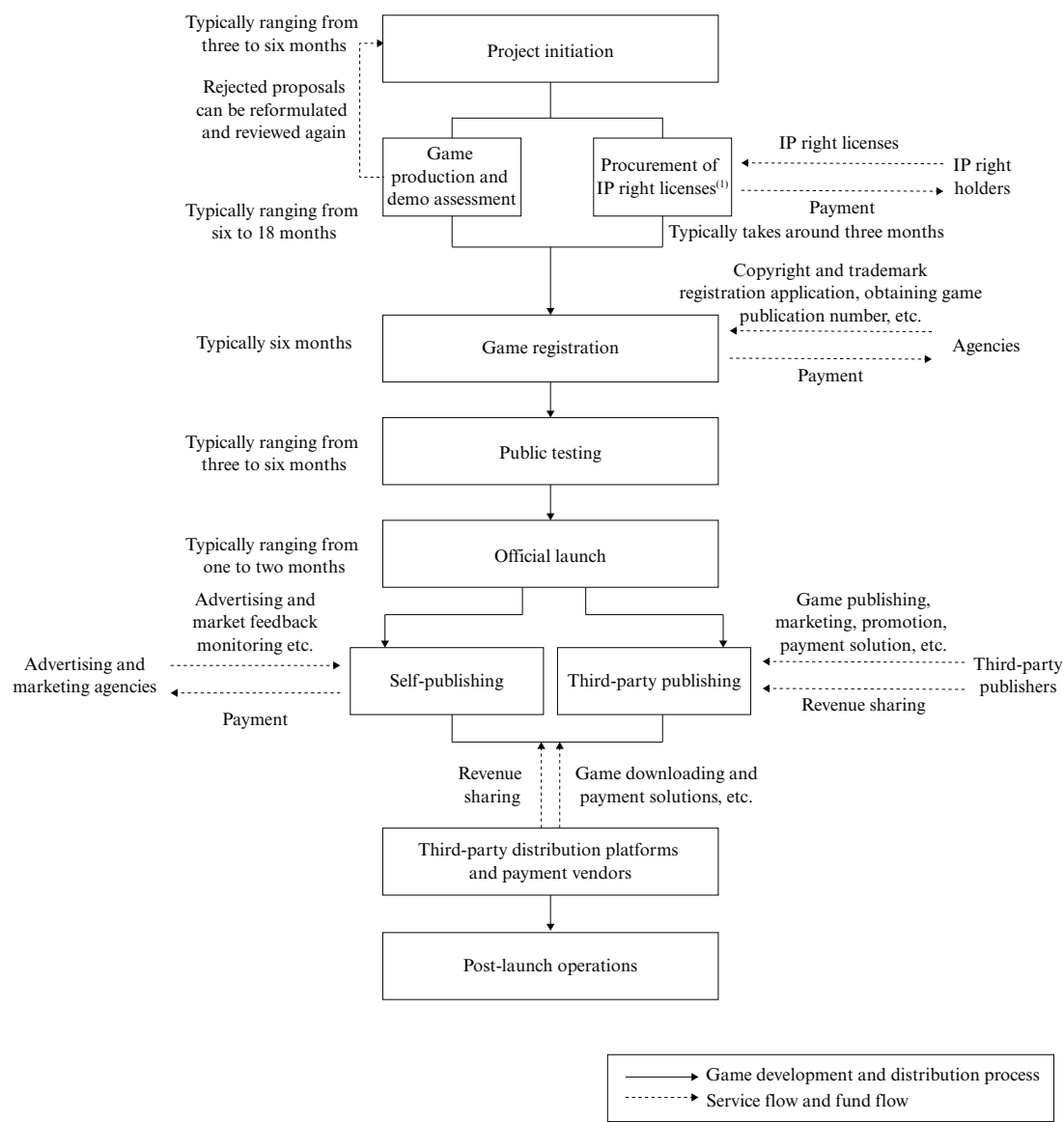
Based on the foregoing, our Directors believe that sports management simulation games and sports action simulation games do not directly compete with each other as their core gameplay, target user groups, geographical market focus, monetization strategies and game user interface are different. According to the Frost & Sullivan Report, mobile game users pursue mobile games for different purposes which are not substituting to each other. For example, some users opt for playing specific game genre for consuming pastime while other users may look for mental challenge from playing mobile games involving higher technical sophistication. The same user may also be engaged with multiple games with different genres depending on their needs at specific time. For example, one may choose to play sports management simulation games during his/her fragmented time such as his/her morning and evening commute time; and at the same time, the same person may choose to play sports action simulation games during his/her leisure time when he/she could be more concentrated on commanding complex manual control or steering techniques. Accordingly, *Football Master* (足球大師) and *Football Champion* (最佳11人 — 冠軍球會), with their technical and operational differentiation illustrated above, are positioned to capture different specific targeted subgroups within the football management simulation game segment. Despite that *Football Master* (足球大師) and *Football Champion* (最佳11人 — 冠軍球會) are both football-themed sports management simulation games, our Directors believe that there is a low risk of cannibalization given our Group’s strategic differentiation in their core gameplay, target user groups, geographical market focus, monetization strategies and game user interface. Also, their different launching time may give rise to a complimentary effect to the extent that the less loyal users, for instance users with relatively less interest in the core gameplay of *Football Master* (足球大師), can be captured by *Football Champion* (最佳11人 — 冠軍球會) as a strategic means to maintain the business growth and financial performance of the Group.

OUR BUSINESS MODEL

As a mobile sports game developer, publisher and operator in the PRC, our business model is based on developing, launching, publishing, operating and monetizing our games. In terms of development, during the Track Record Period, except *Chinese Super League* (冠軍中超OL) that was co-developed with a third-party game developer and *Idol Love Story* (戀愛吧!偶像) that was developed with a third-party game developer and publisher on commission basis, with determined storyline and script, all of our games are developed in-house. In order to develop and publish such games, we would require IP right licenses of various sports league, sports associations and sports clubs. In terms of game publishing, we mainly rely on self-publishing. We self-publish our games by (i) collaborating directly with third-party distribution platforms, such as application marketplaces to allows users to download our games; (ii) providing QR codes on our official website for visitors to download and install our games; and (iii) commissioning advertising and marketing agencies to publicize our games with links which would be directed to the official website of our games or various third-party distribution platforms. To a lesser extent, we also partner with third-party publishers to publish and promote our games. After a game is launched, we will regularly upgrade our games to reflect users’ feedback, market data collected and analysis by our sales and marketing team. Usually, the entire game development takes approximately one and a half year to three years

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starting from project initiation to official launch. A flow-chart exemplifying our business model and the interaction of the service flow and fund flow at each stage of our game development and distribution processes is provided below:



Note:

1. We normally procure IP right licenses from IP right holders after project initiation and during the process of game production and demo assessment but before public testing. The procurement of IP right licenses sometimes may also take place at a later stage where the relevant IP-related contents will only be added to the game and be available in game to the users after we obtain such IP right licenses from the IP right holders.

For more information on the basis of revenue recognition, please refer to the section headed “Financial Information — Game Revenue Recognition”.

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Project initiation

Project initiation is the pre-production designing phase of a game project, when our coach team (comprising mainly senior management), product team and marketing team design the overall idea, concept and core gameplay of games. Largely, the success of a game depends on whether the idea and concept are attractive and whether its core gameplay is engaging to achieve the ultimate goal of commercialisation. Usually, we adopt a top-down development structure where our coach team would first determine the overall direction based on our Group’s business planning and strategies, and our product team would then narrow down the core gameplay and type of sports for the game project taking into account view of the marketing team from the marketing perspective, such as, the latest market trend, particularly in the sports regime as we primarily focus on mainstream sports games, user preferences, potential user base and technology advancement.

We would also consider whether the required IP right licenses are available and whether our technological capabilities can meet users’ expectations for a game of this genre. We then evaluate market competition for the intended game and assess whether we possess a competitive edge.

Once a game project is agreed upon, our teams would further formulate and determine the key aspects of the game project, such as the selling points, target markets and users, major play modes and levels design, characters, artistic style, as well as the required timeline, staff and budget. The game production process will then officially kick off and a project team will be formed.

Procurement of IP right licenses

IP right holders generally refer to the proprietary owners of the IP right licenses such as trademark, design and copyright, and in the context of the online sports game industry, include sports leagues, sports associations and sports clubs.

During the Track Record Period and up to the Latest Practicable Date, we have been successfully obtaining and continuously renewing IP right licenses from renowned sports league, sports associations and sports clubs, including FIFPro, NBA, NBPA, Juventus F.C., Manchester City F.C., F.C. Bayern Munich, Paris Saint-Germain F.C., Borussia Dortmund and F.C. Barcelona. The following table sets forth the number of IP right licenses obtained for each of our existing mobile sports games during the Track Record Period and up to the Latest Practicable Date:

Games	For the years ended December 31,		2021	For the six months ended June 30,	As of the Latest Practicable Date
	2019	2020		2022	
<i>Football Master (足球大師)</i>	7 ⁽¹⁾	7 ⁽²⁾	6 ⁽³⁾	5 ⁽⁴⁾	4 ⁽⁵⁾
<i>NBA Basketball Master (NBA籃球大師)</i>	2 ⁽⁶⁾	2 ⁽⁶⁾	2 ⁽⁶⁾	2 ⁽⁶⁾	2 ⁽⁶⁾
<i>Football Champion (最佳11人 — 冠軍球會)</i>	4 ⁽⁷⁾	5 ⁽⁸⁾	7 ⁽⁹⁾	9 ⁽¹⁰⁾	7 ⁽¹¹⁾
<i>Total Football (最佳球會)</i>	—	—	—	1 ⁽¹²⁾	2 ⁽¹³⁾

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Notes:

- (1) including FIFPro, F.C. Barcelona, F.C. Bayern Munich, F.C. Internazionale Milano, Manchester City F.C., Juventus F.C. (effective on January 29, 2019) and Real Madrid C.F. (expired on February 28, 2019)
- (2) including FIFPro, F.C. Barcelona, F.C. Bayern Munich (expired on June 30, 2020), F.C. Internazionale Milano (expired on May 31, 2020 and renewed on July 1, 2020), Manchester City F.C. (expired on May 26, 2020), Juventus F.C. and A.C. Milan (effective on July 1, 2020)
- (3) including FIFPro, F.C. Barcelona (expired on September 14, 2021), F.C. Internazionale Milano, Juventus F.C. (expired on June 30, 2021), A.C. Milan and Paris Saint-Germain F.C. (effective on October 1, 2021)
- (4) including FIFPro, F.C. Internazionale Milano (expired on June 30, 2022), A.C. Milan (expired on June 30, 2022), Paris Saint-Germain F.C. and Borussia Dortmund (effective on April 1, 2022)
- (5) including FIFPro, Paris Saint-Germain F.C., Borussia Dortmund and Juventus F.C. (effective on July 1, 2022)
- (6) NBA and NBPA
- (7) including FIFPro, Manchester City F.C., A.C. Milan (effective on July 1, 2019) and Liverpool F.C. (effective on July 1, 2019)
- (8) including FIFPro, Manchester City F.C., A.C. Milan, Liverpool F.C. and F.C. Bayern Munich (effective on July 1, 2020)
- (9) including FIFPro, Manchester City F.C., A.C. Milan, Liverpool F.C., F.C. Bayern Munich, Juventus F.C. (effective on July 1, 2021) and Paris Saint-Germain F.C. (effective on October 1, 2021)
- (10) including FIFPro, Manchester City F.C., A.C. Milan (expired on June 30, 2022), Liverpool F.C. (expired on June 30, 2022), F.C. Bayern Munich, Juventus F.C., Paris Saint-Germain F.C., Borussia Dortmund (effective on April 1, 2022), and F.C. Barcelona (effective on June 15, 2022)
- (11) including FIFPro, Manchester City F.C., F.C. Bayern Munich, Juventus F.C., Paris Saint-Germain F.C., Borussia Dortmund and F.C. Barcelona
- (12) including Manchester City F.C.
- (13) including Manchester City F.C. and FIFPro (effective on July 14, 2022)

The following table sets forth the scope of IP rights covered by our subsisting IP licensing agreements with the renowned sports league, sports associations and sports clubs as of the Latest Practicable Date:

IP right holder	Scope of IP right license
FIFPro (for <i>Football Master</i> (足球大師), <i>Football Champion</i> (最佳11人 — 冠軍球會) and <i>Total Football</i> (最佳球會))	Use of, among others, the names and images of players, who are members of the affiliates (i.e. union of professional football players having an affiliation agreement with FIFPro-CE), on a collective basis, in the design, development, publication, sale, licensing, promoting, distributing and otherwise making available of the game

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IP right holder

Scope of IP right license

Paris Saint-Germain F.C.

(for *Football Master* (足球大師)
and *Football Champion* (最佳11
人 — 冠軍球會))

Use of, among others, trademarks of Paris Saint-Germain F.C. as specified in the relevant IP licensing agreement and the collective images of the players of Paris Saint-Germain F.C. to manufacture, distribute, sell, advertise and promote the game within the licensed territories

Borussia Dortmund

(for *Football Master* (足球大師)
and *Football Champion* (最佳11
人 — 冠軍球會))

Use of, among others, trademarks of Borussia Dortmund as specified in the relevant IP licensing agreement and the names and images of players of the first men team squad of Borussia Dortmund to create, produce, offer and sell the game within the licensed territories

Juventus F.C.

(for *Football Master* (足球大師)
and *Football Champion* (最佳11
人 — 冠軍球會))

Use of, among others, trademarks of Juventus F.C. as specified in the relevant IP licensing agreement and image of jersey of the Juventus F.C. on the game and the promotional materials in relation to the game within the licensed territories

Manchester City F.C.

(for *Football Champion*
(最佳11人 — 冠軍球會) and
Total Football (最佳球會))

Use of, among others, trademarks, logos and trade names of Manchester City F.C. and the names and likeness of players in the first men team squad of Manchester City F.C. for the development, distribution and promotion of the game within the licensed territories

F.C. Bayern Munich

(for *Football Champion*
(最佳11人 — 冠軍球會))

Use of trademarks, logos, crest and teak kits of F.C. Bayern Munich for the development, distribution and promotion of the game within the licensed territories

F.C. Barcelona

(for *Football Champion*
(最佳11人 — 冠軍球會))

Use of, among others, trademarks, crest, the images and likeness of the players in the first men team squad for the design, reproduction, distribution and marketing of the game within the licensed territories

NBA

(for *NBA Basketball Master*
(NBA籃球大師))

Use of, among others, logos and marks of NBA and logos and marks of NBA teams, for the development, publication, distribution, marketing and operation of the game within the licensed territories

NBPA

(for *NBA Basketball Master*
(NBA籃球大師))

Use of, among others, trademarks of NBPA and images and likeness of a collective group of NBA players in the development, distribution, marketing and sale of the game within the licensed territories

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Based on the above scope of IP right licenses and the respective terms and conditions in the subsisting IP licensing agreements of our Company as of the Latest Practicable Date, no additional charges or fees are payable to the relevant IP right holders for the use of the names, images and/or likeness (as the case may be) of athletes with high popularity in the relevant sports leagues, sports associations and sports clubs, as long as our use is in line with the scope of the relevant IP right licenses.

Considering that (i) our games are not designed to rely on a particular sports club or athlete for attracting the habitual spendings by our game users, (ii) our IP rights licensors are the official IP rights owners of the relevant sports league, sports associations and sports clubs; and (iii) the IP licensing arrangement has been a mature practice in the sports industry subject to the contractual dealings between the sports leagues/sports associations/sports clubs and their respective individual athletes, our Directors are of the view that there had been no material impact on the Group due to any material litigation between our IP right licensing partners and their respective individual athletes during the Track Record Period and up to the Latest Practicable Date and the potential material adverse impact expected to be brought by any material litigation between our IP right licensing partners and their respective individual athletes to the Group is remote and therefore no material adverse impact is expected on our Group’s operations and financial condition if such situation occurs in the future. Nothing has come to the attention of the Sole Sponsor which suggests contrary to the views of our Directors.

We believe that there is a mutual inter-dependence between the IP right holders and game developers as the lifespan and success of a mobile sports simulation game largely depends on having procured, renewed and successfully integrated the IP right licenses into the game while the IP right holders, such as renowned sports leagues, sports associations and sports clubs are looking for long-term licensing partners who could align with their mission and vision in promoting the sports and safeguarding their own reputation in a sustainable manner. Also, according to the Frost & Sullivan Report and to the best knowledge of our Directors, in order to promote their brand and increase global exposure so as to maintain long-term sustainable profitability, IP right holders are keen to look for licensing partners, such as established game developers with proven track record and familiarity with the local market for cooperation, especially for the PRC market which has a considerable size of population and potential market opportunities from the sports fan base. A successful cooperation arrangement with local licensing partners, such as a popular mobile sports game developer with effective marketing strategies to continuously grow its user base, could not only bring stable and reliable royalty income streams to the IP right holders, but also provide them with increased global brand exposure and local market penetration without incurring their own advertising and marketing expenses. As such, there exists a mutual inter-dependence relationship between the IP right holders and mobile sports game developers who require the IP right licenses of the internationally renowned sports leagues, sports associations and sports clubs to enhance and create realistic and appealing content of the mobile sports games.

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IP right holders usually impose stringent checks and restrictions in selecting their licensing partners in order to ensure that the end-product truly reflects the athletes and the league itself and safeguards their reputation to avoid brand confusion and deterioration. In order to secure suitable IP right licenses for our game development, our senior management would generally undergo specific application procedures, namely due diligence, company pitch, background check and negotiation. Such phase may take around three months to complete.

After such application procedures and upon obtaining approval from the IP right holders, we will enter into IP licensing agreements with the IP right holders. The IP licensing agreement typically contains the following salient terms and conditions:

IPs to be licensed:	(i) Names, nicknames, jersey numbers, biographical data, signatures, images and other personal and/or team sports data in relation to the sports athletes to be licensed; (ii) graphics and design in relation to the sports arena; and (iii) logo of the sports leagues, sports associations or sports clubs, image of stadium, etc.
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Exclusivity:	Such IP right licenses would normally be non-exclusive for both parties and we would not be allowed to transfer such IP right licenses to third parties.
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According to the Frost & Sullivan Report, it is common for game developers to obtain only non-exclusive IP right licenses because (i) it would incur less costs as compared to that of exclusive ones; and (ii) usually exclusive IP licensing agreements will in turn impose similar contractual obligations on the part of the game developers prohibiting them from cooperating with other IP right holders, which will restrict the game developers to enrich the game contents with other IP right licenses.

Accordingly, even though we are sometimes offered with the option of entering into an exclusive licensing arrangement with the IP right holders, we decide to procure a non-exclusive one due to a number of considerations, such as the assessment of, potential profitability of the mobile sports games against the acquisition cost of the IP right licenses, the target markets and users, the level of popularity and influence of the league and athletes of the league, and the game content and nature etc.

Restrictions:	There would be restrictions on which games and geographical locations such IP shall be licensed. For example, our IP licensing agreement with NBA restricts our use of such IP to develop <i>NBA Basketball Master</i> (<i>NBA 籃球大師</i>) for distribution in the PRC, Hong Kong, Macau and Taiwan only.
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There would also be additional requirements, such as maintaining level of financial performance, and only engaging in business or industries that are not in conflict with the IP right holders, etc. Our Group uses our best endeavors to fulfill such additional requirements by continuously meeting the required level of financial performance and strictly avoiding competitions with the IP right holders.

Royalty fees:	Royalty fees payable to IP right holders are generally structured in the form of (i) a lump-sum minimum guarantee fee which can be paid in instalments; and (ii) variable rates ranging between 6% and 25% based on the gross income or net income (as the case may be) generated from in-game virtual item purchases by our game users, which are to be paid on a quarterly or yearly basis.
Duration:	Not less than one year
Termination:	Both parties are entitled to terminate the IP licensing agreement with notice given within an agreed period should either party fails to fulfill their contractual obligation or breaches a condition of the agreement.

The following table sets out the respective duration and termination clauses of each of the current IP licensing agreements entered into with the IP right holders:

IP right holder	Authorized game	Duration	Termination clause
FIFPro	<i>Football Master</i> (足球大師)	April 1, 2020– April 1, 2023	Either party may terminate the agreement in the event that the other party is in material breach thereunder or any other specified situation arises such as the bankruptcy of either party, in accordance with the procedure as stipulated in the agreement.
FIFPro	<i>Football Champion</i> (最佳11人 — 冠軍球會)	September 1, 2021– August 31, 2023	Either party may terminate the agreement in the event that the other party is in material breach thereunder or any other specified situation arises such as the bankruptcy of either party, in accordance with the procedure as stipulated in the agreement.
FIFPro	<i>Total Football</i> (最佳球會)	July 14, 2022– July 14, 2025	Either party may terminate the agreement in the event that the other party is in material breach thereunder or any other specified situation arises such as the bankruptcy of either party, in accordance with the procedure as stipulated in the agreement.

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IP right holder	Authorized game	Duration	Termination clause
NBA	<i>NBA Basketball Master</i> (<i>NBA 籃球大師</i>)	October 1, 2019– September 30, 2024	NBA may terminate the agreement in the event that we breach certain essential terms as specified thereunder or any other specific situation arises such as we are in bankruptcy, in accordance with the procedure as stipulated in the agreement.
NBPA	<i>NBA Basketball Master</i> (<i>NBA 籃球大師</i>)	October 29, 2018– September 30, 2024	We may terminate the agreement should NBPA fails to approve our product design for launch in accordance with the agreement. NBPA may terminate the agreement in the event that we breach certain essential terms as specified thereunder or any other specified situation in the agreement arises such as we are in bankruptcy.
Manchester City F.C.	<i>Football Champion</i> (<i>最佳11人 — 冠軍球會</i>)	January 1, 2021– January 1, 2023 ⁽¹⁾	Either party may terminate the agreement by giving prior written notice in the event such as the other party is in breach of its material obligations under the agreement.
Juventus F.C.	<i>Football Champion</i> (<i>最佳11人 — 冠軍球會</i>)	July 1, 2021– June 30, 2023	Juventus F.C. may terminate the agreement in the event that we breach certain essential terms as specified thereunder or any other specified situation in the agreement arises such as if we are in bankruptcy.
Juventus F.C.	<i>Football Master</i> (<i>足球大師</i>)	July 1, 2022– June 30, 2023	Juventus F.C. may terminate the agreement in the event that we breach certain essential terms as specified thereunder or any other specified situation in the agreement arises such as if we are in bankruptcy.
F.C. Bayern Munich	<i>Football Champion</i> (<i>最佳11人 — 冠軍球會</i>)	July 1, 2022– June 30, 2023	Either party may terminate the agreement by giving a three-month notice to the end of the contract term; F.C. Bayern Munich may terminate the agreement in the event that we breach certain essential terms as specified thereunder such as if we fail to pay the license fee within 14 days after the due date.

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IP right holder	Authorized game	Duration	Termination clause
Paris Saint-Germain F.C.	<i>Football Master</i> (足球大師)	October 1, 2021– September 30, 2023	Either party may terminate the agreement if the other party commits a material breach of the agreement and (if such breach is remediable) fails to remedy that breach within the agreed certain period. The licensor may terminate the agreement if we, among others, suspend or cease all or a substantial part of our business or go into insolvency or are unable to pay our debts when due.
Paris Saint-Germain F.C.	<i>Football Champion</i> (最佳11人 — 冠軍球會)	October 1, 2021– September 30, 2023	Either party may terminate the agreement if the other party commits a material breach of the agreement and (if such breach is remediable) fails to remedy that breach within the agreed certain period. The licensor may terminate the agreement if we, among others, suspend or cease all or a substantial part of our business or go into insolvency or are unable to pay our debts when due.
Borussia Dortmund	<i>Football Master</i> (足球大師)	April 1, 2022– March 31, 2023	Either party may terminate the agreement if the other party (i) is involved in insolvency proceedings or (ii) commits culpable breach of the agreement and fails to remedy such breach within a reasonable period.
Borussia Dortmund	<i>Football Champion</i> (最佳11人 — 冠軍球會)	April 1, 2022– March 31, 2023	Either party may terminate the agreement if the other party (i) is involved in insolvency proceedings or (ii) commits culpable breach of the agreement and fails to remedy such breach within a reasonable period.
Manchester City F.C.	<i>Total Football</i> (最佳球會)	January 1, 2022– December 31, 2024	Either party may terminate the agreement by giving prior written notice in the event such as the other party is in breach of its material obligations under the agreement.
F.C. Barcelona	<i>Football Champion</i> (最佳11人 — 冠軍球會)	June 15, 2022– June 30, 2024	Either party may terminate the agreement if the other party (i) fails to perform its contractual obligation and the failure is not remedied within a stipulated period; or (ii) is subject to winding-up or liquidation proceeding. F.C. Barcelona may opt for termination if we breach the material obligations as stipulated in the agreement.

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Note:

- (1) As of the Latest Practicable Date, we have reached a preliminary understanding on the major terms with Manchester City F.C. for renewal of the IP right license.

The below sets out the IP licensing agreements that expired during the Track Record Period and up to the Latest Practicable Date:

IP right holder	Authorized game	Duration
Manchester City F.C.	<i>Football Master</i> (足球大師)	May 26, 2018 – May 26, 2020
F.C. Bayern Munich	<i>Football Master</i> (足球大師)	July 1, 2019 – June 30, 2020
Real Madrid C.F.	<i>Football Master</i> (足球大師)	March 1, 2017 – February 28, 2019
F.C. Barcelona	<i>Football Master</i> (足球大師)	September 15, 2020 – September 14, 2021
F.C. Internazionale Milano	<i>Football Master</i> (足球大師)	July 1, 2020 – June 30, 2022
A.C. Milan	<i>Football Master</i> (足球大師)	July 1, 2020 – June 30, 2022
A.C. Milan	<i>Football Champion</i> (最佳11人 — 冠軍球會)	July 1, 2019 – June 30, 2022
Liverpool F.C.	<i>Football Champion</i> (最佳11人 — 冠軍球會)	July 1, 2019 – June 30, 2022

As of the Latest Practicable Date, our Group decided not to renew the above expired IP right licenses for *Football Master* (足球大師) and *Football Champion* (最佳11人 — 冠軍球會) after taking into account a number of commercial considerations, such as the assessment of potential profitability of the game against the acquisition/renewal cost of the IP right licenses and the marketing and promotional strategy of the game in line with the market trend. Further, despite the expiration of the IP right licenses from Manchester City F.C., F.C. Bayern Munich and F.C. Barcelona for *Football Master* (足球大師) during the Track Record Period, our Company maintained ongoing IP licensing relationship with these relevant IP right holders for *Football Champion* (最佳11人 — 冠軍球會) as of the Latest Practicable Date, as part of our promotional strategies for *Football Champion* (最佳11人 — 冠軍球會) to capture the market demand from sports fans of these sports clubs. Our Directors consider that the expiration of the IP licensing agreements with the remaining four sports clubs, namely Real Madrid C.F., F.C. Internazionale Milano, A.C. Milan and Liverpool F.C. would not have any material impact on the Group’s business operations and financial performance due to that, (i) with the IP right licenses from FIFPro, we are authorized to use, among others, the images and names of the football players from the professional leagues and national teams, which have entered into an affiliation agreement with FIFPro, in our *Football Master* (足球大師) and *Football Champion* (最佳11人 — 冠軍球會) even though we did not renew the IP licensing agreements with the sports clubs separately; and (ii) our *Football Master* (足球大師) and *Football Champion* (最佳11人 — 冠軍球會) are sports management simulation games which are designed to allow users to deploy sports players from different sports clubs or national teams to build up and manage their own teams and to devise different team formation tactics to compete with rival teams in the in-game battles. According to the Frost & Sullivan Report and to the best knowledge of our Directors, the football fans’ attachment to their favourite sports clubs is, to a certain extent, established upon their fondness towards their favourite football players in the sports clubs. Therefore, due to the nature of sports management simulation games, as long as we are entitled to use the images of the popular football players from the relevant sports clubs in our games, there would not be any material impact on the game users to deploy their favourite football players to form their own teams to compete with other rival teams. As such, from time to time, our Group will take into account the abovementioned commercial considerations to adjust our advertising and

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marketing strategies to decide whether or not to acquire new or renew existing IP right licenses with different sports clubs. Since the fourth quarter of 2021, we have acquired two new IP right licenses from sports clubs, namely, Paris Saint-Germain F.C. and Borussia Dortmund, for *Football Master* (足球大師) and *Football Champion* (最佳11人 — 冠軍球會) to attract new users and bring in new gameplay experience to existing users. In relation to the above, our Directors are of the view and the Sole Sponsor concurs that the expiration of IP right licenses from these relevant sports clubs per se, for *Football Master* (足球大師) and *Football Champion* (最佳11人 — 冠軍球會), would not have any material adverse impact on our Group’s business operations and financial performance.

Our Directors confirm that our Group had not been involved in any commercial disputes in relation to the above expired IP licensing agreements during the Track Record Period and up to the Latest Practicable Date.

Game production and demo assessment

Game production is the central and the longest phase of our game development during which the gameplay, artwork, audiovisual effects and programme are produced. On average, we have 25 to 35 developers per project, the team members of which comprise members from our various departments, including art, front-end and back-end development and testing.

During the game production process, the front-end development engineers would develop a basic demo version where the core gameplay and preliminary artistic and audiovisual effect are developed. Such basic demo version would be passed to testing by the testing engineers.

If the testing engineers consider that such basic demo version can principally achieve the effect contemplated in the original game proposal, the project team would then proceed to develop a more advanced version as well as to map out the detailed artworks, gameplays, models and back-end functions. During this process, the testing engineers would continuously try out the game in all aspects and provide feedback on game functionalities and their in-game experience to the other team members to refine the designs, resolve technical issues and fix programme bugs. If the project team considers a version of the game is ready for public testing, the project team would then invite our coach team and other colleagues to try out this more advanced version. Upon our coach team’s approval, we would proceed from game production and demo assessment to public testing with external users and preparation of relevant documentation for game registration. Depending on the complexity and novelty of the relevant game, the complete production cycle of our games typically range from six to 18 months.

Game registration

Before public testing, we apply for game registration with the relevant government authorities. NPPA has been responsible for the approval of online game registration and issuance of game publication numbers since March 2018. The game registration process typically takes approximately six months for the applicant to obtain the game publication number which is essential for the official launch and publication of a game in the PRC. To facilitate the successful launch of our mobile games, we generally start applying for game registration for the relevant game when the game is substantially completed. NPPA at the national level temporarily suspended approval of game registration and issuance of publication numbers for online games since March 2018 and resumed to issue game publication numbers for new online games by batches periodically since December 2018. Subsequently, the game registration and issuance of game publication numbers temporarily suspended again in July 2021 and then resumed in April 2022. For details, please refer to the section headed “Regulation Overview — Regulations on Online Games Publishing and Operation —

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Online Game Examination and Publishing”. During the Track Record Period and up to the Latest Practicable Date, we have completed game registration with the relevant government authorities and obtained the game publication numbers for our launched games in the PRC. In addition, for two of our new games in the pipeline, namely *MLB Baseball Master* (*MLB棒球大師*) and *NFL American Football Master* (*NFL橄欖球大師*), which primarily target overseas markets such as North America, any further temporary suspension of game registration and issuance of game publication numbers in the PRC would not have material adverse impact on the Group’s overall business operation and financial performance. For *NBA Basketball Action* (*NBA操作籃球*), we plan to submit game registration application to the relevant PRC government authorities around the first quarter of 2023 and to the best knowledge of our Directors and as advised by our PRC Legal Advisers, subject to complete documentation process, the relevant authorities’ discretion and barring any unforeseen circumstances, there is no foreseeable material legal impediment to our Group to complete the game registration and obtain the game publication numbers for our new games in the pipeline. Based on (i) the view of the PRC Legal Advisers as stated above; (ii) during the Track Record Period and up to the Latest Practicable Date, the Group had not experienced any material difficulty in completing the game registration and obtaining the game publication numbers for the launched games in the PRC; and (iii) the approval of game registration and issuance of publication numbers for online games have been resumed since April 2022, the Directors are of the view that there would be no foreseeable material legal impediment on the registration and publication number application of our new games in the pipeline in the PRC which may result in any material adverse impact on our business operation and financial performance. In view of the uncertainty in regulatory changes in the PRC as mentioned under the section headed “Risk Factors — Any regulatory changes in the approval and registration process of new online games by the PRC government may adversely affect our business” in this document, our Directors will from time to time seek legal advice from our PRC Legal Advisers and/or approach the relevant PRC government authorities to keep apprised of the latest policy developments and closely follow up the application progress of our new games in the pipeline to ensure compliance with the relevant regulatory requirements. In the event of any of game approval policy change or further temporary suspension in the PRC, our Group will prioritize the publication and marketing efforts of our new games in the pipeline, namely *MLB Baseball Master* (*MLB棒球大師*), *NBA Basketball Action* (*NBA操作籃球*) and *NFL American Football Master* (*NFL橄欖球大師*) in the overseas markets as mitigation measures.

Public testing

After game production stage and the game has successfully completed registration with the relevant government authorities as well as obtained game publication number, we would conduct a few rounds of public testing for the game with the involvement of external users, which we will usually engage users from both our user community and through third-party distribution platforms to form a testing user base that is similar to the real user base of the game. The public testing stage typically lasts for three to six months and it is generally classified into two stages, namely close testing and open testing. For close testing, we would limit to a selected group of users, such as loyal users from previous games, selected focus groups or invitees from game forums on an invitation basis.

After the game is further optimized according to feedback gathered from users of close testing, we would start open testing for the public to download and play on trial. At this stage, the game product is almost ready for official launch and the operation of the game is closely imitating the post-launch real game operation.

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We closely keep track of the key game and user data, including primarily user retention rate and active users’ in-game activity during the entire testing process to assess game quality and monetization potential. With the support of our data collection and analysis tools, we are able to analyse the data on a real-time basis. We also actively gather users’ feedback through market surveys, discussions in our user community and communication with third-party distribution platforms. Through such analysis, we are able to pre-assess the market reaction and financial performance of our games and further optimize the games as necessary before officially launching the game.

Official launch

After completion of public testing, we would publish the game through self-publishing and third-party publishing officially.

Game publishing

Our game publishing avenues can be classified into two types, namely self-publishing and partnering with third-party publishers. Our third-party publishers are responsible for publishing, marketing and promotion, and providing customer services for our games in the prescribed territories through various channels such as social media platforms; whereas, for self-publishing, we will engage various advertising and marketing agencies at our own discretion from time to time. The following paragraphs set out the key differences between self-publishing and third-party publishing models:

Self-publishing

During the Track Record Period, we mainly relied on self-publishing. Our self-publishing avenues consisted of (i) collaborating directly with third-party distribution platforms, such as application marketplaces for users to download our games; (ii) providing QR codes on our official website for visitors to download and install our games; and (iii) commissioning advertising and marketing agencies to publicize our games with links which would be directed to the official website of our games or various third-party distribution platforms. In relation to the third-party distribution platforms, we worked with major application marketplaces, such as Apple AppStore, Google Play, Tencent Appstore, Huawei, Xiaomi, OPPO, Vivo and TapTap. For details of the specific arrangements, please refer to the subsection headed “— Our business model — Third-party distribution platforms” in this section.

During the Track Record Period, we have engaged various advertising and marketing agencies from time to time. Our cooperation arrangements with these advertising and marketing agencies typically set out the framework under which, we will determine the budget, advertising contents and distribution platforms and these agencies will place advertisements (online or offline) in the designated distribution platforms. The advertising fees payable to advertising and marketing agencies would be referenced to the amount of advertisement posts or the number of user actions, such as cost per day, cost per click, cost per million views, cost per try and cost per action.

Third-party publishing

During the Track Record Period, we also partnered with third-party publishers to publish and promote our games, thereby penetrating into the target markets with the support of their established local resources and user base.

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We grant third-party publishers rights to publish our games through designated third-party distribution platforms primarily as a mobile application, except for *Football Master (足球大師)* which has a web-based version that is managed by one of our third-party publishers. According to the third-party publishing arrangement, while we are responsible for providing our game products, daily game operation, technical support, maintenance and upgrades of our games, as well as the determination of the price for in-game virtual items, the third-party publishers will be responsible for publishing, advertising, marketing and promoting our games, handling payment solutions as well as customer services in the prescribed territories and they profit from revenue sharing of our games on a pre-determined rate.

During the Track Record Period, we have entered into agreements with third-party publishers with the major terms set forth as follow:

Term:	The term of agreements typically ranges from one to five years.
Principal rights and obligations of parties involved:	We are responsible for providing our game products, daily game operation, technical support, maintenance and upgrades of our games, as well as the determination of the price for in-game virtual items. Our third-party publishers will be responsible for publishing, advertising, marketing and promoting our games, handling payment solutions as well as customer services in the prescribed territories.
Revenue sharing arrangement:	We are entitled to receive a share of revenue from the games at a predetermined rate which generally ranges from approximately 10% to 45% of the sales proceeds in the games, payable by the third-party publishers upon cross-checking on a monthly basis.
Termination:	The agreement can be terminated upon mutual negotiations or in the event of a material breach of either party, the other party shall have the right to terminate the agreement upon written notice.

As of the Latest Practicable Date, we have established a strategic partnership with Garena, a leading global online game developer and publisher, which is part of a global consumer internet company founded in Singapore operating three core businesses across digital entertainment, e-commerce as well as digital payments and financial services. Pursuant to our cooperation, we believe Garena can serve as a solid foundation for our global expansion in overseas markets. Our Directors strive to maintain a collaborative relationship with Garena with an aim to further market and promote our games through websites and platforms operated by Garena in overseas markets from time to time.

Our criteria for selection of third-party publishers include, but not limited to, their scale of operation and track records in regional markets, financial resources, market reputation and influence, creditworthiness and management capabilities.

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The following table sets forth a breakdown of revenue by publishing models in absolute amounts and as percentages to our total revenue for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(Unaudited)									
Self-publishing games	360,360	95.2	395,024	97.6	452,672	98.4	176,928	97.8	292,106	99.1
Third party publishing games	18,270	4.8	9,721	2.4	7,179	1.6	4,046	2.2	2,669	0.9
Total	378,630	100.0	404,745	100.0	459,851	100.0	180,974	100.0	294,775	100.0

The following table sets forth a breakdown of gross profit and gross profit margin by publishing models for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	Gross profit		Gross profit		Gross profit		Gross profit		Gross profit	
	margin		margin		margin		margin		margin	
	RMB'000		RMB'000		RMB'000		RMB'000		RMB'000	
	(Unaudited)									
Self-publishing games	174,942	48.5%	185,457	46.9%	229,880	50.8%	85,888	48.5%	154,681	53.0%
Third-party publishing games	2,110	11.5%	1,478	15.2%	1,088	15.2%	662	16.4%	625	23.4%
Others ¹	(5,951)		(6,544)		(9,441)		(3,908)		(6,441)	
Total	171,101		180,391		221,527		82,642		148,865	

Note 1: Others refer to cost of revenue unallocated to different publishing models, mainly consist of staff costs, depreciation of property, plant and equipment and depreciation of right-of-use assets.

Generally, the gross profit margin of our self-published games is higher than our third party published games as we need to pay our third-party publishers revenue sharing fees in addition to the commission fees charged by third-party distribution platforms.

Third-party distribution platforms

To gain access to a large user base domestically and globally, we distribute our games through third-party distribution platforms, such as Apple AppStore and Google Play as well as a number of domestic distribution platforms in the PRC, such as Tencent Appstore, Huawei, Xiaomi, OPPO, Vivo and TapTap, during the Track Record Period. We enter into non-exclusive distribution agreements with these third-party distribution platforms and the distribution agreements typically contain the following salient terms:

- Term: The terms of agreements typically range from one to two years.
- Principal rights and obligations of parties involved: We are required to deliver the games as specified in the agreements and render operation, maintenance and customer services. Third-party distribution platforms are required to promote and advertise the games on their respective platforms.

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- **Payment:** The third-party distribution platforms are entitled to a commission fee, calculated at the percentage normally ranging from approximately 30% to 70% of the sales proceeds from the users’ purchase of in-game virtual items. Such amount (together with any applicable administrative charges (for example, local indirect tax and foreign exchange conversion charges, etc.)) is generally paid to the third-party distribution platforms, with the remaining sales proceeds payable to us upon cross-checking on a monthly basis.
- **Termination:** Either party may terminate the agreement in the event that the other party breaches any provision under the agreement.
- **Indemnification:** We shall defend, indemnify and hold harmless of the third-party distribution platforms from and against any and all third-party claims and losses arising from (i) our use of the distribution platforms in violation of the agreements; (ii) the infringement or violation by our games of any IP right licenses or other rights of any person; or (iii) the violation of any applicable law by us.

The following table sets forth a breakdown of revenue generated by self-publishing for the periods indicated, which mainly include revenue from the third-party distribution platforms such as Apple AppStore, Google Play and other third-party distribution platforms operated on Android system, and the payment vendors.

	Years ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
							(Unaudited)			
Third-party distribution platforms										
Apple AppStore	190,674	53.1	171,296	42.5	194,487	42.3	69,508	39.5	139,800	46.7
Android ¹	131,486	36.6	175,955	43.7	161,522	35.1	76,305	43.4	92,931	31.1
Google Play	<u>13,105</u>	3.7	<u>11,220</u>	2.8	<u>50,997</u>	11.1	<u>8,062</u>	4.6	<u>28,405</u>	9.5
Payment vendors ²	<u>23,814</u>	6.6	<u>44,409</u>	11.0	<u>52,948</u>	11.5	<u>21,877</u>	12.5	<u>38,137</u>	12.7
Sub-total	<u>359,079</u>		<u>402,880</u>		<u>459,954</u>		<u>175,752</u>		<u>299,273</u>	
Deferred revenue ³	<u>1,281</u>		<u>(7,856)</u>		<u>(7,282)</u>		<u>1,176</u>		<u>(7,167)</u>	
Total	<u>360,360</u>		<u>395,024</u>		<u>452,672</u>		<u>176,928</u>		<u>292,106</u>	

Note 1: This included various third-party distribution platforms operated on Android system such as Tencent Appstore, Huawei, Xiaomi, Oppo, Vivo and TapTap.

Note 2: This primarily represented revenue received from the payment vendors whereby the users download our games directly through our official website or make payments through the payment vendors for our games downloaded via links publicized by our advertising and marketing agencies.

Note 3: The negative deferred revenue during the years ended December 31, 2020 and 2021 and the six months ended June 30, 2022 was primarily due to (i) the increase in revenue generated near the end of the respective year/period; and (ii) the increase in the User Relationship Period of our Group’s games which was mainly caused by user behaviour patterns during the corresponding financial periods.

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Post-launch operations

After game launch, we maintain a team of members primarily from the game’s project development team, to be responsible for the ongoing maintenance, development, optimisation and upgrades of the game in our daily operation. Further, the team would closely work with our sales and marketing and customer service teams, to update our games from time to time based on our analysis of data collected, such as user behaviour, virtual item purchase and consumption patterns. We upgrade our games to fix bugs and programming issues to ensure that our games could run on mobile devices seamlessly. Also, we release version upgrades periodically, for instance, introducing in-game promotional activities, new gameplay contents and features, optimizing game design, function, and user experience to attract and monetize our users.

Customer service

Feedback from our users is crucial for our games development and improvement. We believe that our dedicated customer service plays a significant role in retaining users and encouraging them to become our loyal paying users. Our customer service team consists of 28 employees as of the Latest Practicable Date. Users may make inquiries, lodge complaints or submit feedback via our in-game customer service system, our website, our customer service hotline and customer service hotline of third-party distribution platforms, such as Apple AppStore. Upon receipt of an inquiry or complaint, our customer service team will investigate into the matter and provide a preliminary response promptly. If a matter cannot be adequately resolved by our customer service team, it will be submitted to our operational, technical or other relevant teams. In some instances, customer complaints may be escalated to our senior management. Our customer service team would also participate in internal testing sessions during the game development process, especially during the later phases when a game is being modified to reflect user feedback. Since November 2018, we have directly engaged our customers and followed up with the feedbacks and complaints collected primarily via QQ chat groups, WeChat, emails and in-game communications. During the Track Record Period and up to the Latest Practicable Date, we have not received any material complaints from our users that resulted in any material adverse impact on our business operations.

Monetization and pricing

The monetization of a mobile game (which is usually offered as a free-to-play game) relies on a developer’s capabilities in converting a user into a paying user. To achieve this, the game contents, such as players, coaches, football stadium, etc., will have to be continuously enhanced to encourage in-game spending by game users to purchase virtual items. Paying users would first be purchasing virtual tokens which is tailored to each game and can only be spent in the game to exchange for in-game virtual items. Our ability to monetize users would be restrained by the industry price range of similar games.

All of our four existing games are free-to-play games. We believe that we have accumulated a large amount of user data which assists us in determining the appropriate type of virtual items to offer, the offer timing and the offer price to trigger an in-game purchase. In the game development stage, we price each virtual item based primarily on our analysis of certain benchmarks, including our expected periodic economic return of the game, the game scenario and system upgrades, level of disposable income of targeted users, purchasing habits of local markets and the price of similar virtual items offered in other comparable games.

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Once the prices and exchange rates of the virtual items are determined, we generally will not drastically change the prices and exchange rates in order to avoid uncontrollable inflation of the in-game economic system that will undermine our user experience. We maintain a database that records all in-game transactions, user activities after their in-game purchases and their consumption patterns after we launch new version of games or conduct promotional events. We will continue to optimize in-game content and our virtual items merchandising strategy as well as to regularly release new versions of games to maximize monetization.

Payment vendors

We offer users purchasing our in-game virtual items with a variety of third-party payment options, such as WeChat Pay, Alipay, My Card and UniPin. We have entered into contracts with our third-party payment vendors on their standard terms and conditions. Under the agreements with our third-party payment vendors, they are generally responsible for the operation and management of their payment systems to ensure the payment service is properly and timely delivered. We will from time to time take reasonable care to monitor the integrity and safety of the payment systems of such payment vendors, such as ensuring the user account safety and our network and website security, and cooperating with the payment vendors with respect to their fraud detection and other risk management arrangements. Our agreements with the third-party payment vendors typically contain the following salient terms:

Term:	One year subject to automatic renewal if no prescribed event takes place under the agreement.
Principal rights and obligations of parties involved:	Our third-party payment vendors are responsible for providing the connectivity and technical infrastructure to facilitate the end-user payment transactions, and remitting the transaction amount made by the users to our Group after deducting the service fee they are entitled to under the agreement.
Service fee:	Our third-party payment vendors are entitled to a service fee, calculated at a pre-determined percentage of the sales proceeds in the game.
Payment:	The third-party payment vendors would remit the sales proceeds in the game received from the users to our Group after deducting the service fee they are entitled to under the agreement upon our request or on a monthly basis.

For more information as to our payment arrangement with the third-party payment vendors, please refer to the section headed “Financial Information — Game Revenue Recognition”.

Business sustainability

Our Directors believe that our Group’s four existing mobile sports games (i.e. *Football Master* (足球大師), *NBA Basketball Master* (NBA籃球大師), *Football Champion* (最佳11人 — 冠軍球會) and *Total Football* (最佳球會)) and our three new mobile sports games in the pipeline have a prolonged lifecycle which enables our Group to achieve long-term and sustainable business growth for the reasons below:

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Our mobile sports games enjoy a relatively longer lifecycle

Our mobile sports games generally enjoy a relatively longer lifecycle than other genre of mobile games because of the following reasons:

- **Relatively longer lifecycle of Model B mobile sports games**

According to the Frost & Sullivan Report, unlike Model A games (for the details of Model A games, please refer to the section headed “Industry Overview — Life Cycle Analysis of Online Sports Games”), our mobile sports games, both existing games and new games in the pipeline, are designed as Model B online sports games with an expected relatively longer lifecycle of approximately ten years before reaching its final stage because of the following reasons:

- (i) Application of advanced technology in the games:** Our games are designed and developed with advanced game technologies to simulate the real-life athletes and sports events. With the support of our proprietary game technologies, we are able to create attractive gameplay scenes and visualization effects, thereby enhancing the entertainment experience to users. The recreation of the attractive gameplay scenes and visualisation effects requires the game developers to be equipped with strong research and development capabilities. For further details of our investment in the IT infrastructure and game technologies, please refer to “Game Technology” in this section. During the Track Record Period, we incurred research and development expenses of approximately RMB40.1 million, RMB45.2 million, RMB62.7 million, and RMB37.5 million, accounting for approximately 10.6%, 11.2%, 13.6% and 12.7% of our total revenue, respectively. In contrast, game developers of Model A games which aim to achieve profit maximization to capture the market demand in the short term would not normally devote such significant resources and efforts to building up an in-house research and development team with independent development capabilities to sustain the competitiveness of the game.
- (ii) Possession of IP right licenses from internationally renowned sports league, sports associations and sports clubs:** We have been renewing existing and acquiring new valuable IP right licenses from renowned sports league, sports associations and sports clubs for the legitimate right to continuously update the game content of our mobile sports games and to synchronize with the changing dynamics of the sports leagues and sports players in real life. During the Track Record Period, we incurred license fees of approximately RMB40.1 million, RMB47.7 million, RMB47.7 million and RMB29.8 million, representing approximately 19.3%, 21.3%, 20.0% and 20.4% of our total cost of revenue, respectively. Apart from the incurrence of license fees and commitment for a specified contractual term which normally lasts for at least one year, the acquisition process of these IP licensing agreements would consume considerable management resources to undergo specific application procedures, such as due diligence vetting, company pitch and negotiation. On the contrary, game developers of Model A games, which aim to produce monotonous game features to provide short-term entertainment to users, would not afford to incur such management resources and capital as well as time commitment for a specified contractual term in order to simulate the real-life sports world development to enhance the attractiveness of the games so as to retain users and increase their stickiness.

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- (iii) **Continuous regular game updates and upgrades:** We continue to update our games on a regular basis with the changing dynamics and updates of players and sports teams to simulate the real-life sports world development. The continuous updates and upgrades of game versions and contents require the support of a strong and capable team of professional research and development talents. As of the Latest Practicable Date, we had a total of 227 research and development staff, accounting for approximately 61.9% of our total number of employees. In order to strive for more future research and development breakthroughs in the existing games and to launch new games with more sophisticated gameplay experience, we plan to recruit a total of 24 additional technical staff for the years ending December 31, 2023 and 2024. For details of our business strategies to strengthen our research and development capabilities, please refer to “— Our Strategies — We will further strengthen our talent pool in order to support our development of new mobile sports games and further improve our research and development capabilities” in this section. On the contrary, it is uncommon for game developers of Model A games which aim to capture short-term market demand with one to three years of expected lifecycle to devote such committed investment cost and efforts to the enhancement of research and development capabilities to support the continuous game version and content updates. Through the implementation of the above, we have cultivated a loyal and active user base of our games which consists of our core users who have invested heavily to purchase virtual items with the goal to maintain their in-game competitiveness and therefore would have strong attachment to our games.

In view of the above, unlike Model A games of which the game developers would normally devote less resources to designing and developing advanced game technologies, introduce less frequent game updates and upgrades and procure fewer IP right licenses to enhance the attractiveness of the games to extend their lifecycle, our existing mobile sports games possess common characteristics of a Model B game. The common characteristics include that (i) Model B games are developed with advanced game technologies to provide more attractive gameplay experience to users; (ii) more IP right licenses are acquired to enhance game features and contents; and (iii) game updates and upgrades are conducted on a more frequent basis to improve user experience. With these characteristics, our existing mobile sports games tend to enjoy a more enduring lifecycle of approximately ten years after launch.

Furthermore, mobile sports simulation games allow sports fans to realize and engage their life-long interest through managing and controlling their favourite sports players virtually. Most users of mobile sports games, especially mobile sports simulation games, are sports fans who are interested in the sports in the real world. As a lifelong interest, these sports fans tend to watch sports matches regularly and keep track with the latest development of the sports leagues, matches and star players that they are fond of. Sports simulation games also provide a sense of immersion and allow sports fans to socialize and share their interest. These sports fans are also motivated to practise more to improve their gaming skills and to pay for the virtual items and additional features of the games. Their continuous engagement in the game reinforces their common interests to both the sports that they are loyal to, as well as, the sports simulation game. Given that the loyalty of sports fans to their favourite sports leagues and players may last throughout their lifetime, it has always been our strategies that our *Football Master* (足球大師), *NBA Basketball Master* (NBA籃球大師), *Football Champion* (最佳11人 — 冠軍球會) and *Total Football* (最佳球會) be developed and operated as Model B sports games with a more

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enduring lifecycle which is in line with our aim to capture the vast market demand in the mobile sports game industry in the longer term as differentiated from the Model A sports games which are usually developed with a lower initial investment cost and capital commitment. Therefore, the lifecycle of our mobile sports games, on average, is considered to be relatively longer than other genre of mobile games due to the user’s lifelong interest in the corresponding sports.

In particular, according to the Frost & Sullivan Report, football and basketball are two of the most popular team sports in the world. For further details of the popularity of football and basketball in the PRC and overseas, please refer to the section headed “Industry Overview — Analysis on Popularity of Major Sports in PRC” and “Analysis on Popularity of Major Sports in Overseas Markets”. Also, as our mobile sports games aim to recreate the real-life athletes and global sports events, the collaboration with established and renowned sports league, sports associations and sports clubs as well as the popularity of real-life sports events serve as the driving factors to attract more users to our mobile sports games continuously.

- **Further extension of lifecycle for games with multiple language versions**

We devoted resources to introducing our existing mobile sports games into various overseas regions and/or in multiple language versions. Our signature games, *Football Master* (足球大師), *NBA Basketball Master* (NBA籃球大師), *Football Champion* (最佳11人 — 冠軍球會) and *Total Football* (最佳球會) have been introduced to various overseas regions in multiple languages. For further details of the language versions of each of our existing mobile games, please refer to “Our existing game portfolio” in this section.

According to the Frost & Sullivan Report, the lifecycle of games can be extended by introducing multiple language versions and arranging the release time of each language versions properly and orderly. We usually take into account the following factors when deciding the timeline of releasing different language versions: (i) readiness for localization of game contents: historically, we would first release simplified Chinese and traditional Chinese versions because the PRC local market has been the primary target for our mobile sports games and the translation into traditional Chinese can be done with minimal costs; (ii) our overseas expansion plan for each of our mobile sports games: if the game is designed to target certain overseas markets, we will prioritize the translation of the corresponding language version and contents localization. For example, for *MLB Baseball Master* (MLB棒球大師), of which the primary targeted markets are North America, Japan, South Korea and Taiwan, the English version of this game will be released ahead of other foreign language versions; (iii) our collaboration with third-party publishers: if the overseas publication of our game is to be performed by our third-party publisher, usually the corresponding foreign language versions can be released earlier as the translation and contents localization works can be facilitated with external support; and (iv) the potential market size of the particular sports and sports simulation game in the regions: in those overseas markets with larger potential user base, the corresponding foreign language versions will be released earlier than those with a smaller potential user base in order to quickly consolidate our market position.

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Further, as part of our localization strategies tailored for different overseas markets, we may adopt different titles of our games when launching in certain overseas markets to suit the local culture or leverage our Group’s established brand awareness among users in those regions. For instance, *Football Champion* (最佳11人 — 冠軍球會) was first launched in the PRC in April 2020 and afterwards has been named as “Football Master 2 — Soccer Star”, “Football Master 2” or “ベストイレブン — CHAMPIONS CLUB” on the third-party distribution platforms in certain overseas markets, such as Hong Kong, Vietnam, South Korea, Japan, etc. due to that: (i) prior to the launch of *Football Champion* (最佳11人 — 冠軍球會) in the overseas markets, as part of the market feasibility assessment, our Group had conducted searches on the major third-party distribution platforms, such as Apple AppStore and Google Play, for any available games with similar titles or names during when we had identified a number of mobile games under similar titles with *Football Champion* (最佳11人 — 冠軍球會). As such, the management considers that the introduction of *Football Champion* (最佳11人 — 冠軍球會) in these overseas markets with game titles or names similar to the existing mobile games developed by our Group’s competitors would create confusion to the potential game users who may perceive our Group’s new game to be somehow related to the existing competing games with different quality and hence may undermine the effectiveness of the promotion and marketing efforts of our Group’s new game in the overseas markets as these potential game users who previously tried out the existing competing games with similar game titles or names may not download and try out our Group’s newly launched game if such prior experiences had not been pleasant, which may place our Group’s new game in a less advantageous position, especially during the game’s launch and early-growth stage when our Group would launch extensive marketing and promotion campaigns in order to increase the exposure of the game and to attract a large base of users within a relatively short period of time; and (ii) accordingly, our Group decided to name *Football Champion* (最佳11人 — 冠軍球會) as “Football Master 2 — Soccer Star”, “Football Master 2” or “ベストイレブン-CHAMPIONS CLUB” on the third party distribution platforms in certain overseas markets, such as Hong Kong, Vietnam, South Korea, Japan, etc., as our localization and marketing strategy to distinguish *Football Champion* (最佳11人 — 冠軍球會) from other mobile games developed by other competitors with similar titles or names and to leverage the established brand recognition garnered by us among the game users in the mobile sports game industry since the publication and operation of *Football Master* (足球大師) in July 2014. For details of the different game titles of our existing mobile sports games, please refer to “Existing game portfolio” in this section.

GAME TECHNOLOGY

I.T. infrastructure

Our game portfolio and user base are supported by a stable network infrastructure. All of our game products involve real-time interaction, requiring our server network to respond promptly with low latency. We have a dedicated team constantly monitoring the performance and security of our servers. As of the Latest Practicable Date, we leased over 367 servers hosted in internet data centers which are mainly operated by Google to archive and support our major algorithms. We also engage reputable cloud server service providers in China to support the login servers. We have entered into annually renewable service agreements with these data centers and cloud server service providers. These service providers are generally responsible for providing server hosting services with stable power supply, internet connection facilities and firewall monitoring services that can meet our requirements. We pay service fees according to the terms of the service agreements which are

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typically calculated on the basis of the bandwidth utilized. For the leasing of servers, service fees are determined based on the number of servers leased by us. We are fully responsible for the content and information stored and published on the servers and these service providers are entitled to terminate their agreements with us if we are found to be in violation of applicable laws and regulations. We believe that the above network facilities provide us with sufficient capacity to carry out our current operations and due to our established relationship with the internet data centers and cloud server service providers, we believe that we are able to expand such facilities to meet additional capacity requirements relatively quickly and with minimum incremental administrative cost.

Arena rendering engine

We developed arena rendering engine that has enhanced and optimized the rendering effects of the scenes of sports games on mobile devices, such as, the high-precision of grassland, audience at the stadium, facial expression and muscle movement of players in the matches as well as textile fabric dynamics of players’ jersey. Such self-developed arena rendering engine allows us to provide an authentic match experience to our users. With the further improvement of accuracy in algorithms, we expect to further enhance the rendering quality and efficiency of this rendering engine in the forthcoming years.

Automatic 3D facial model

In order to achieve more realistic quality in rendering the avatar of an athlete, we have developed a set of methods to automatically generate high-precision images by which high precision facial expression of players can be created by processing multiple 2D images of players in our database. This modeling technology enhances our efficiency in generating 3D facial model of players, coupled with arena rendering engine, allowing us to enhance the authentic match experience to our users.

InnoReal

We developed a 3D reconstruction technology, InnoReal, which is a 360° high-speed camera system, which will collect all the motion images during sports events simultaneously and generate a dynamic 3D model output. With the use of such system, we are able to further enhance and optimize the rendering effects of the scenes of gameplay efficiently.

AI technology

We have developed an AI technology that optimizes two key areas of our gameplay — the movement of virtual players and the organization of sports teams. On one hand, our AI technology assists users to exercise manual command to steer virtual players and realize in-game locomotion such as ball passing, ball receiving, running with the ball, turning with the ball, dribbling, heading, etc. with realistic visualization effect. In addition, our AI technology facilitates the organization of virtual sports teams and assists our users to master and mimic the positioning and formations of a real-life sports team, including strategizing the passing and receiving of the object between players in order to shoot and score, etc. With such advanced AI technology, our new sports action simulation games (such as the newly launched *Total Football* (最佳球會)) would allow users to recreate real-life sports tournaments, and at the same time, enriching our game portfolio to users with varied levels of steering abilities.

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Motion and physics engines

We have developed and further refined our motion and physics engines to supplement the optimized decision-making realized by our AI technology. The refined motion and physics engines allow the animation of our virtual players to synchronize with the rapid decision-making and manual commands by our users, especially in our mobile sports action simulation games. Such refinement allows the animation of the virtual players to run, kick and jump seamlessly like a real-life sports player as the animation responds instantly to the action command from our users.

Data analytics

We have built a comprehensive system for data collection. The data we collect include time of gameplay, number of turns of games played, in-game activity levels, progress of skill levels, frequency of using specific in-game functions and popularity of each in-game virtual item. Effective sales and marketing would rely on the user data that are well collected, organized and analyzed. Our sales and marketing team is responsible for collecting, organizing and analyzing our user data on an ongoing basis. Leveraging the centralized data platform, we are able to generate data reports indicating key performance indicators, such as, DAUs and ARPPU, centrally manage voluminous data from different games, monitor and analyze user behavior in order to adjust our game development direction, assess users’ receptiveness of new games or in-game virtual items, and analyze different user groups’ preferences and demands in order to optimize our monetization strategies. Through these processes, we have built effective mechanisms in our games to stimulate user interest. The data analytics also enable us to understand our users’ in-game behavioral patterns, and identify key performance drivers, virtual items and other areas for improvement.

Data privacy and protection

We have adopted a series of data privacy policies to comply with the relevant laws and regulations on data privacy and protection in our business operations, which include (i) data collection upon user consent; (ii) limiting scope of personal data collection on a necessary basis; (iii) restricting access of user data to authorized employees and providing them with regular refresher training courses; and (iv) engagement with qualified cybersecurity service provider and cloud service server providers to ensure safeguard of data security.

We are dedicated to data privacy protection. We collect data and other information from users with their prior consent, such as users’ game data (e.g. primarily log-in frequency, time of gameplay, in-game activity levels, progress of skill levels, preference of using specific in-game functions) and personal data (e.g. mobile phone number and for users downloading our games through our official websites, their identification number and age). We inform the users of the purpose and scope of the information collected from them, and they acknowledge the privacy policies and measures we have adopted with respect to data privacy protection. Also, we have adopted a specific privacy policy for children, i.e. users under the age of 14, with instructions for their guardians pursuant to the Personal Information Protection Law of the People’s Republic of China (《中華人民共和國個人信息保護法》) which became effective on November 1, 2021 that information processors shall formulate specialized rules for handling personal information of minors under the age of 14. Moreover, we provided channels for users to access, update and delete their personal information, close their accounts and withdraw consents. In addition, we have included all necessary information into our privacy policy, such as our registration location, our data storage location for the personal information, the dates of publication and version updates of our privacy policy, the type of personal information for sharing and transferring. Our scope of personal information collected is limited to those necessary and is specified in our privacy policy. We will use the data and information collected from our users to (i)

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provide general services relating to our games; (ii) enhance the user experience of our games; (iii) provide promotional information upon our users’ consent; (iv) allow our users to participate in interactive session of our games; (v) notify our users of the changes of our services; (vi) provide customer service of our games; (vii) prevent fraud and provide a safe gaming environment; and (viii) comply with our obligations under the relevant laws and regulations.

Our Company has adopted reasonable measures to prevent collection of user data which is irrelevant to our business and operation. If we collect additional user data or use the collected data for purposes other than those stipulated in our privacy policy, we will ensure we have gained the requisite users’ consent beforehand through webpage notifications, announcements or other methods that allow users to indicate their consent unequivocally. Regular safety and privacy protection training courses are also held to strengthen employee’s understanding and awareness towards the importance of user data protection.

Our Directors confirm that our Group is in compliance with all applicable PRC laws and regulations in relation to data privacy and our Group has not been subject to any legal or regulatory proceedings in relation thereto during the Track Record Period and up to the Latest Practicable Date.

Cybersecurity, anti-attack system and data protection

The security and stability of our technology infrastructure is critical to the sustainability of our game operations, user experience and reputation. We have developed cybersecurity and network security systems to safeguard against distributed denial-of-service attack and other types of malicious attacks. We have anti-attack measures in place to ensure that we can prevent or effectively and timely resolve the system attacks as follows:

- We have engaged external cybersecurity service provider as further safeguard to our network infrastructure and to provide remedial responses once any problem is identified.
- We have leased reputable cloud service servers to collectively host, manage and process all of our non-core operating data, which act as a gatekeeper to prevent direct on-premises data access to our locally saved core data.
- We have implemented protection and security measures against computer virus and hacking of systems and continue to strengthen such measures, such as establishing advanced firewall policy.
- We have formulated and adhered to a discreet data back-up protocol to prevent data loss.
- We have conducted regular tests and exercises to monitor the effectiveness of our emergency action plan when confronting external attacks.
- We have imposed clear segregation between our internal system and external system to minimize the risk of internal attacks.

We have not experienced any hostile system attacks during the Track Record Period and up to the Latest Practicable Date that resulted in any material interruption to our network infrastructure. The outsourced cybersecurity services we employ shall promptly resolve the distributed denial-of-service attacks within a certain timeframe. Once a material attack is detected, the cybersecurity service provider will alert us immediately and our technical team will promptly

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coordinate with it to diagnose and resolve the problems. To the best knowledge of our Directors, we have not experienced any material interruption to our game operation nor leakage of user information during the Track Record Period and up to the Latest Practicable Date.

Regarding data privacy and cybersecurity, we have implemented the following data protection measures to secure that the data we collect, particularly privacy data of our users, are not misappropriated or misused so as to ensure legal and regulatory compliance:

- We have implemented internal policy to safeguard against any unauthorized access to data, especially personal information which keeps track of the access record of our employees. Only our key employees have access to the data we collect, and authorization from senior management is required if access to the data is requested from other non-key employees.
- We have classified our data into different levels pursuant to the relevant data privacy laws and regulations and formulated different access restrictions accordingly. In particular, we have maintained a need-to-know level of data access policy for our employees, that is, our employees, with required authorization, can only access to a minimum scope of data as necessary for specific purposes.
- We monitor the access record of our employees by compiling data access logs, and whenever unusual access occurs (e.g. unauthorized access), our system will prompt an alert.
- We only retain our users’ data to a necessary extent that will enable us to maintain standard service and normal function and as permitted by relevant rules and regulations.
- We provide regular trainings to our employees on the latest development of the relevant PRC law and regulation on cybersecurity and data protection to prevent misappropriation, improper use or data leakage by our employees.

We believe the measures we put in place with respect to data privacy and cybersecurity are consistent with industry practice. Our management will continue to make other relevant and reasonable efforts to prevent excessive collection, loss or leakage of user data as considered necessary in accordance with the applicable rules and regulations, as well as the performance and user feedback of our existing games from time to time.

In view of the Measures for Cybersecurity Review 2022 and the Draft CAC Regulations on Internet Data Security, which provide that, among others, (i) the internet platform operators or data processors shall apply for a cybersecurity review if such internet platform operators or data processors holding over one million individuals’ personal information aiming for foreign listing, and (ii) the data processors shall apply for a cybersecurity review if such data processor which affects or may affect national security is seeking listing in Hong Kong. As advised by our PRC Legal Advisers, who conducted a phone consultation with the competent authority, namely CCRC, which confirmed that despite that the Company possesses personal information of more than one million users, the Company is not required to notify the CAC of its proposed [REDACTED] in Hong Kong because (i) the Company’s current application for [REDACTED] in Hong Kong is exempt from the term “foreign listing”, and (ii) by developing, publishing and operating mobile sports games, we believe that we have not engaged in any data processing activities that affect or may affect national security and thus we are unlikely to be deemed as a data processor that affects or may affect national security.

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As of the Latest Practicable Date, the Draft CAC Regulations on Internet Data Security have not been enacted or taken effect. If the Draft CAC Regulations on Internet Data Security were implemented in its current form, we believe that our business operations would not be materially and adversely affected and currently there are no substantive obstacles for us to fulfill the obligations that may be applicable to us. For details, please refer to the section headed “Risk Factors — Risks Relating to Conducting Business in the PRC — (iii) Data security regulations” in this document. In addition, based on the aforesaid and the consultation with the CCRC, our PRC Legal Advisers do not foresee any material legal impediment for the Group to undertake measures to comply with the Measures for Cybersecurity Review 2022 and the Draft CAC Regulations on Internet Data Security should they be adopted in the current form in all material respects.

Minor protection, real name registration and anti-addiction measures

Pursuant to the implementation of the Notice on Further Strengthening Regulation to Effectively Prevent Online Gaming Addiction among Minors (《關於進一步嚴格管理切實防止未成年人沉迷網絡遊戲的通知》) (the “**Regulatory Notice**”) which was issued on August 30, 2021 and took effect on September 1, 2021, (i) all online game companies (including platforms providing online game services) can only provide one hour of online game services to minors between 20:00 to 21:00 on Fridays, weekends and statutory holidays, and are not allowed to provide online game services in any form to minors in any other time, (ii) the requirements for real-name registration prior to login of online game user accounts shall be strictly implemented, (iii) publishing authorities at all levels shall strengthen their supervision and inspection of online game companies in terms of, among other situations, the implementation of the time frame and duration of online game services, the real-name registration prior to login, and paid services compliance, and (iv) families, schools and other social parties shall be actively guided to create a good environment conducive to the healthy growth of minors, to perform the guardianship duty to minors, to strictly enforce on minors the rules on the time frame and duration of playing online games, etc.

To ensure our Group’s ongoing compliance with the relevant minors’ protection and anti-addiction regulations in the PRC (including the Regulatory Notice and the Notice on Further Strengthening the Management of Preventing Primary and Middle School Students from Addiction to Online Games (《關於進一步加強預防中小學生沉迷網絡遊戲管理工作的通知》) issued on October 20, 2021), our Group has implemented the following minor protection measures or made appropriate arrangements with the relevant third-party distribution platforms in relation to minor protection measures.

Real-name Registration

Pursuant to the minor protection laws and regulations in the PRC, users are required to submit their identification number to the Anti-addiction and Real Name Authentication System for Online Games operated by the relevant government authorities in the PRC (the “**Anti-addiction and Real Name Authentication System**”) which would automatically verify the users’ identity and decipher the users’ age based on the compilation of the identification number (the “**Real-name Registration**”).

Our Group has integrated our in-game system with the Anti-addiction and Real Name Authentication System in order to complete the Real-name Registration for users who downloaded and registered for our games through our official website and Apple AppStore, hence we have collected and ascertained the accuracy of the age information directly from such users and are able to implement the relevant anti-addiction control measures. To implement the Real-name Registration, we will ban the access of users with trial account which fail to provide information for real name

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registration and disallow the registration of blacklisted users with identification numbers restricted by the Anti-addiction and Real Name Authentication System database which is updated by the relevant government authorities in the PRC from time to time.

Meanwhile, for users who downloaded and registered for our games through Samsung Galaxy Store and other third-party distribution platforms that we collaborate with in the PRC (the “**Other Third-party Distribution Platforms**”), due to the user information sharing restrictions from the internal data privacy policy and the terms of use of user information of the Other Third-party Distribution Platforms, we are not allowed access to the age information of users who downloaded and registered for our games through the Other Third-party Distribution Platforms and hence these distribution platforms are responsible for collecting users’ age information and implementing the Real-name Registration in the PRC. We have put in place proper arrangements with Samsung Galaxy Store and the Other Third-party Distribution Platforms to ensure that they are the responsible parties for the implementation of the Real-name Registration and collecting age information from users who downloaded and registered for our games through their distribution platforms in the PRC. The users’ age information obtained by Samsung Galaxy Store (but not for the Other Third-party Distribution Platforms) would subsequently be transmitted to our Group for the implementation of anti-addiction control measures.

Anti-addiction Control Measures implemented by our Group

Further to the Real-name Registration, a series of anti-addiction control measures shall be implemented to protect minor users including but not limited to (i) restricting the provision of online game services to minor users (such as primary and middle school students) other than between 20:00 to 21:00 on Fridays, weekends and statutory holidays; (ii) displaying warning notice at the prominent place of the log-in page of online games to notify the gaming time and duration restriction for minor users; (iii) automatically banning minor users who play the game during the restricted time, or have exceeded the stipulated duration; and (iv) restricting the maximum amount of the in-game spending by minor users (for instance, (a) paid services shall not be provided to minor users under 8 years old; (b) 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; and (c) 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) (measures (i) to (iv) above, collectively, the “**Anti-addiction Control Measures**”).

For users who downloaded and registered for our Group’s games through our Group’s official website, Apple AppStore and Samsung Galaxy Store, control measures including the Anti-addiction Control Measures on minor users are imposed by our Group as appropriate, whereas for users who downloaded and registered for our Group’s games through the Other Third-Party Distribution Platforms, such Other Third-Party Distribution Platforms have notified our Group in writing that they would be responsible for the implementation of both the Real-name Registration and Anti-addiction Control Measures as appropriate when users downloaded and registered for our games through their distribution platforms.

Based on the information available to our Group, minors (individuals under the age of 18) contributed (i) 182,608 or approximately 3.56% of our total registered users with log-in activities; (ii) 68 or approximately 0.02% of our total paying users; and (iii) RMB2,760 or less than 0.01% of the total top up amounts in the PRC recorded by the Group for our games downloaded and registered through our official website, Apple AppStore and Samsung Galaxy Store since the implementation of the Regulatory Notice and up to September 30, 2022.

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Division of Responsibilities between Our Group and the Other Third-Party Distribution Platforms

For the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022, based on the information available to our Group, approximately 4.8 million, 7.1 million, 9.4 million and 10.8 million of our registered users, representing approximately 46.7%, 48.7%, 47.8% and 48.0% of our total registered users in the PRC, as well as approximately 330,000, 413,000, 276,000 and 166,000 of our paying users, representing approximately 46.1%, 50.8%, 44.4% and 42.5% of our total paying users in the PRC, downloaded and registered for our Group’s games through the Other Third-party Distribution Platforms in the PRC, respectively.

As confirmed by our PRC Legal Advisers, the third party distribution platforms are also obligated under the relevant minor protection and anti-addiction regulations in the PRC to implement the control measures regarding the Real Name Registration. The relevant laws and regulations currently do not clearly stipulate the division of responsibilities between the third party distribution platforms and the online game operators in relation to the implementation of minor protection and anti-addiction regulations. In light of the common practice in the industry that the third party distribution platforms as the party with access to the user data (i.e. identification number and age), the Other Third-party Distribution Platforms shall bear the key responsibility to implement the controls, and such division of responsibilities between each of the Other Third-party Distribution Platforms and our Group has been duly registered in the Anti-addiction and Real Name Authentication System. Accordingly, the relevant government authorities should hold the person registered under the Anti-addiction and Real Name Authentication System to be the responsible party under such arrangement.

Therefore, pursuant to the relevant arrangement between our Group and the Other Third-party Distribution Platforms, which have notified our Group in writing that they are responsible for the implementation of the Real-name Registration and the Anti-addiction Control Measures, the in-game activities of minor users who downloaded and registered for our games through their distribution platforms, such as the time-limit and duration restriction for provision of online games services to minor users are monitored by the Other Third-party Distribution Platforms through the Anti-addiction Control Measures that they implemented in our games. Our Directors and Frost & Sullivan are of the view that such arrangement for the purpose of complying with minor protection and anti-addiction measures is a common industry practice in the PRC. As further advised by our PRC Legal Advisers, for the purpose of implementing the minor protection measures and complying with the relevant minor protection regulations in the PRC, the aforesaid arrangement between our Group and Other Third-party Distribution Platforms is legitimate and permissible under the current minor protection regime applicable to the online gaming industry.

Therefore, in light of the common industry practice and the fact that the relevant government authorities should hold the person registered under the Anti-addiction and Real Name Authentication System be the responsible party, the relevant arrangements between our Group and Other Third-party Distribution Platforms are not necessarily legally binding in privity, however, the most practically viable, legitimate and permissible arrangements under the current minor protection regime applicable to the online gaming industry based on the understanding of our Directors, Frost & Sullivan and our PRC Legal Advisers. Based on the above, as advised by our PRC Legal Advisers, considering the Other Third Party Distribution Platforms are also obligated under the relevant minor protection and anti-addiction regulations in the PRC, as long as our Group has duly implemented the Real-name Registration and Anti-addiction Control Measures for users other than those who downloaded and registered for our games from the Other Third-party Distribution Platforms, and has ensured and examined that the Other Third Party Distribution

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Platforms have been registered as the responsible party in the Real Name Authentication System which is operated by the relevant government authorities in the PRC, the likelihood that our Group will be subject to any administrative penalties is remote.

Our Group monitors the minor protection measures adopted and implemented by the Other Third-party Distribution Platforms by: (i) ensuring the Other Third-party Distribution Platforms as the designated party responsible for the Real-name Registration and Anti-addiction Control Measures on the Anti-addiction and Real Name Authentication System, and ensuring the relevant Other Third-party Distribution Platforms confirm and accept their designated role in the System; (ii) acquiring an understanding from the Other Third-party Distribution Platforms on details of their minor protection control measures implemented; and (iii) performing regular tests on the effectiveness of the minor protection control measures implemented by the Other Third-party Distribution Platforms.

Given the fact that our Group performed regular tests on the Real Name Registration and Anti-addiction Control Measures implemented by the Other Third-party Distribution Platforms, and based on the industry practice and the view of our PRC Legal Advisers, our Directors consider that our Group has properly implemented all the minor protection control measures that are legally required and practically available. Our Group will also continue to maintain constant communications with our third party distribution platform partners in the PRC to ensure that our published games are operating in compliance with the various requirements under the prevailing PRC rules and regulations. Going forward, our Directors will review and further enhance the relevant control measures in response to any change in the regulatory requirements effective in the PRC from time to time.

Our Further Plans to Enhance Minor Protection Measures in Our Games

To act proactively in response to the Minor Protection Draft, which was published on March 14, 2022, our Group, as game user information possessor will, by the enactment of the Minor Protection Draft, implement a system to (i) establish a comprehensive anti-addiction policy, and promptly amend consent, function or rules to prevent minors’ addiction; (ii) prevent and discourage unhealthy values such as with excessive focus on viewership (if applicable); (iii) continue to enforce the spending limits; (iv) periodically release update on anti-addiction compliance; (v) implement game rules that are designed to prevent minors from addicting to online games; and (vi) implement appropriate age reminding system, categorize games, clarify the applicable age group for the game, and label conspicuous warnings on the downloading page, user registration and login page.

Other Minor Protection Measures

We also require PRC minors to obtain consents from their parents or guardians before registering accounts in our games, use our services and/or provide their personal information by including a pop-up window to require their parents or guardians to read our privacy policy with the option box to click “agree” or “decline” regarding the consent to the collection of personal information and the privacy policy for our provision of services and implementation of minor’s protection and anti-addiction measures. If any minor’s parent or guardian explicitly rejects our provision of services to this minor, we may suspend the relevant user account and timely delete the information of the relevant minor that we have collected, stored or used, and cease to provide any service to this minor.

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To the best knowledge of our PRC Legal Advisers, our Group has complied with all applicable minor protection laws and regulations in the PRC including the Minor Protection Draft that may be enacted if implemented in its current form (and our Group will implement the relevant new requirements, if applicable, in due course) in all material respects as of the Latest Practicable Date. By adopting the above internal control measures according to the internal control guidelines prepared by our operation team director and with regular control review performed by our IT team, our Directors consider that the Group has complied and is able to comply with the relevant PRC laws and regulations of minor protection as of the Latest Practicable Date, and the minor protection control measures implemented by us are adequate and sufficient.

Internal Control Review Assessment

Further, in view of the current development of minors’ protection and anti-addiction regulations in the PRC, we engaged an independent IT consultant to conduct an internal control review assessment on, among others, (i) the mechanisms and internal control measures of our games in complying with the relevant PRC regulations and notices related to areas including but not limited to minors’ protection and anti-addiction, cyber security, data privacy, etc.; (ii) controls over our Group’s game management system; and (iii) information technology general controls. Based on its work performed, our IT consultant has not identified any material adverse findings over our Group’s mechanism and internal control measures nor material non-compliance with the relevant PRC laws and regulations regarding minors’ protection and anti-addiction. Based on the review results of our IT consultant, and considering that during the Track Record Period and up to the Latest Practicable Date, (i) the majority of our Group’s core group of paying users in the PRC are not minors; (ii) our Group’s gradual successful diversification of revenue from the overseas markets; (iii) the Group had not received any material notice or fine from the relevant PRC government authorities relating to any non-compliance regarding minors’ protection and anti-addiction in all material aspects; and (iv) our Group’s ongoing efforts on the implementation and enhancement of internal control measures to comply with the relevant PRC laws and regulations on minors’ protection and anti-addiction had not resulted in any material adverse impact on our Group’s normal operations and financial performance, our Directors are of the view that as of the Latest Practicable Date, our Group has been able to ensure its ongoing compliance with the relevant regulations regarding minor’s protection and anti-addiction in the PRC and the current development of minors’ protection and anti-addiction regulations in the PRC is not expected to have any material adverse impact on our Group’s business operation and financial performance.

In relation to the above, the Sole Sponsor has conducted, among others, the following independent due diligence work:

- (i) Discussed with the Company’s management to understand (a) the Group’s target users, market positioning, sales and marketing plans of the existing and new games in the pipeline; and (b) the Group’s internal control mechanisms and measures in complying the relevant PRC minors protection and anti-addiction regulations to assess any material adverse impact on the Group’s business operation and financial performance resulting from the strengthening minors protection and anti-addiction regulations in the PRC;

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- (ii) Discussed with, among others, the PRC Legal Advisers of the Company and internal control adviser of the Company to understand the interpretation and implementation of the relevant PRC minors protection and anti-addiction regulations and their views on the Group’s compliance with the relevant laws and regulations regarding minors protection and anti-addiction and whether there is any material adverse impact on the Group’s business operation and financial performance; and
- (iii) Reviewed the financial and operational performance of the Group during the Track Record Period and assessed whether the implementation and enhancement of our Group’s internal control measures to comply with the relevant PRC laws and regulations on minors protection and anti-addiction had resulted in any material adverse impact on the Group’s results of operations and financial condition.

Based on the above due diligence conducted, nothing has come to the attention of the Sole Sponsor which suggests contrary to the Directors’ view that as of the Latest Practicable Date, the current development of minors protection and anti-addiction regulations in the PRC is not expected to have any material adverse impact on the Group’s business operation and financial performance.

SALES AND MARKETING

Our sales and marketing team consisted of 53 employees as of the Latest Practicable Date. We primarily promote our mobile games through online advertising, including through Facebook, Google, Instagram, Youtube and Weibo. We also operate our social media accounts on a regular basis to actively communicate with our users. Moreover, we launch promotional activities, such as virtual item giveaways to enhance user engagement. Due to our positive relationships and communication with the major distribution platforms (including Apple AppStore, Google Play, major Chinese app markets, such as Tencent Appstore, Huawei, Xiaomi, Oppo and Vivo), our mobile games are regularly featured by these distribution platforms, which both attract new users and strengthen our brand.

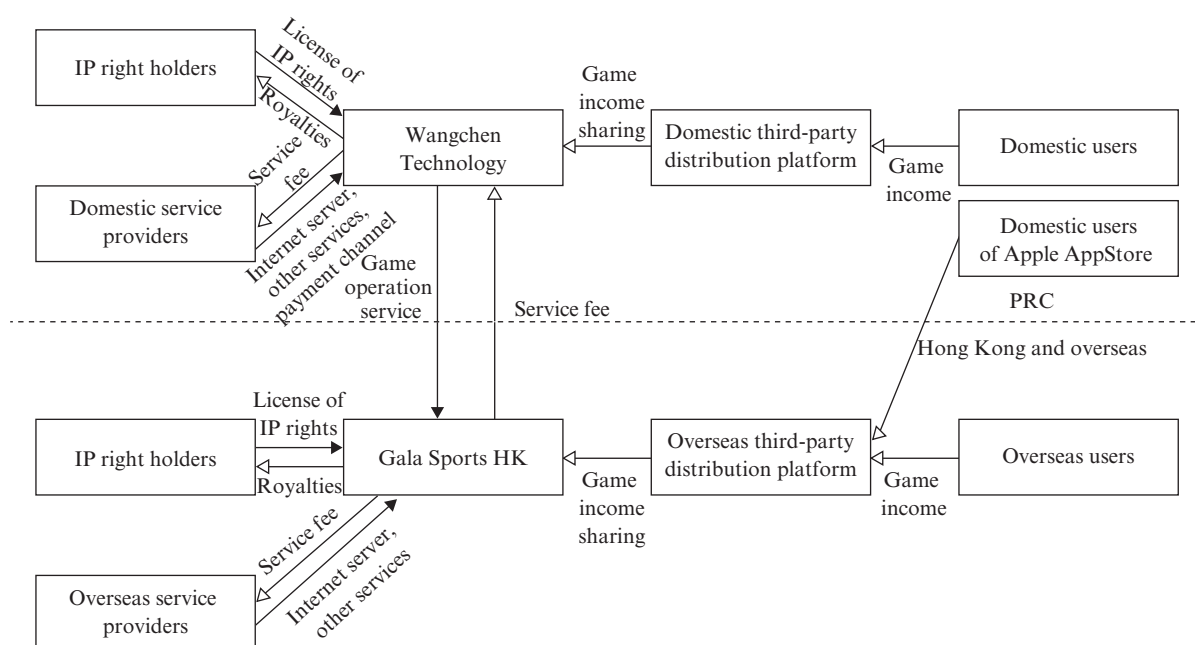
We would also rely on data collected, organised and analysed by our analytics software and work with the customer service team and research and development team to understand such data in order to put into effective use and form the appropriate marketing strategy. For further information, please refer to the section headed “— Game technology — Data analytics” in this section.

Our advertising and marketing expenses amounted to approximately RMB54.5 million, RMB56.3 million and RMB76.5 million for the years ended December 31, 2019, 2020 and 2021, respectively, and approximately RMB67.7 million for the six months ended June 30, 2022, representing approximately 90.4%, 89.5%, 89.3% and 92.3% of our total selling and marketing expenses, respectively.

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Transfer pricing arrangements

During the Track Record Period, our operations were mainly conducted in the PRC. From January 1, 2019 to June 30, 2021, the principal business of our Group, including development, publishing and operation of mobile sports games, were carried out through Wangchen Technology in the PRC. Gala Sports HK mainly acted as the contracting party with IP right holders and overseas third-party distribution platforms to collect payments from overseas users. The diagram below illustrated the aforesaid business model within our Group from January 1, 2019 to June 30, 2021:



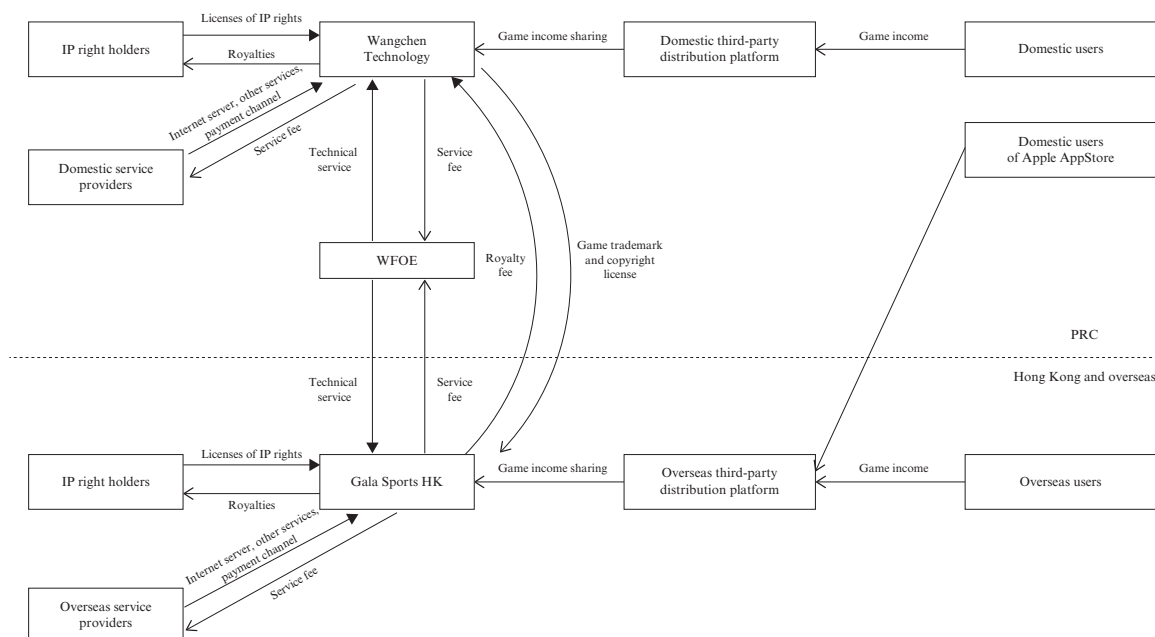
As illustrated above, the intercompany service fees charged by Wangchen Technology to Gala Sports HK for the game operation services provided by Wangchen Technology were regarded as our intra-group transactions relating to our transfer pricing arrangement from January 1, 2019 to June 30, 2021. Our Group’s income was captured by Wangchen Technology and Gala Sports HK for the payments from the PRC and overseas, respectively. Given that Gala Sports HK mainly functioned as the contracting party for overseas market and received various types of services provided by Wangchen Technology, such as game operation services, the intercompany service fees were charged by Wangchen Technology to Gala Sports HK to compensate the service costs incurred by Wangchen Technology and remunerate Wangchen Technology the reasonable return for its contribution made to our Group’s overseas business through game development, publication and operation.

Our Group has engaged an independent transfer pricing consultant, PricewaterhouseCoopers Limited, to conduct a transfer pricing review, including a benchmarking study, to evaluate the transfer pricing arrangement in relation to the above-mentioned intra-group transactions. By employing the prescribed third-party database, the study presented a comparable search where quantitative and qualitative screening criteria were used to come up with a set of independent comparable companies and construct an arm’s length profit range based on the latest three-year financials of the comparable companies accordingly. According to the transfer pricing review, during the period from January 1, 2019 to June 30, 2021, Wangchen Technology carried out all the key business activities, including design and development of games, game publishing and operation, market promotion and sales, data collection and analysis, and owned all the core intangible assets, such as copyright, trademark and know-how, while Gala Sports HK functioned as a routine business

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support service platform which mainly acted as the contracting party with overseas service providers, such as the IP right holders and third-party distribution platforms for the collection of payments from overseas users. Based upon the functional profiles of Wangchen Technology and Gala Sports HK, Transactional Net Margin Method (“TNMM”) was selected as the most appropriate transfer pricing method, and Full Cost Mark Up (“FCMU”) was adopted as the profit level indicator, for evaluating the transfer pricing arrangement between Wangchen Technology and Gala Sports HK during the period from January 1, 2019 to June 30, 2021. Both TNMM and FCMU are commonly accepted in the PRC and Hong Kong transfer pricing practices and stipulated in the relevant transfer pricing regulations. A benchmarking study was conducted by selecting independent companies providing business support services which are comparable to those performed by Gala Sports HK to Wangchen Technology. The comparable companies exhibit a three-year weighted average interquartile range of FCMU ratios from 3.46% to 10.72%, with a median of 5.03%. Based on the management account of Gala Sports HK, Gala Sports HK maintained a cost mark-up ratio of 5% on the administrative expenses, i.e., the costs incurred in relation to its business support activities, during the period from January 1, 2019 to June 30, 2021. Based on the analysis, the weighted average cost mark-up ratio of Gala Sports HK (i.e. 5%) during the period from January 1, 2019 to June 30, 2021 was within the arm’s length profit range of the independent comparable companies.

Since July 1, 2021 upon the implementation of the Contractual Arrangements, WFOE undertook the technical services. Wangchen Technology then functioned as a game operator by distributing mobile games to the PRC domestic market and contributing IP right licenses developed as of June 30, 2021 to our Group’s business. Gala Sports HK continued to act as the contracting party with IP right holders and overseas third-party distribution platforms to collect payments from overseas users. The diagram below illustrated the aforesaid business model within our Group from July 1, 2021 to June 30, 2022:



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As illustrated above, the intercompany service fees charged by WFOE to Gala Sports HK and Wangchen Technology for the technical services provided by WFOE and the royalty fees charged by Wangchen Technology to Gala Sports HK for granting the right to use the trademark and copyright of the mobile sports games developed as of June 30, 2021 for our Group’s overseas business were regarded as our intra-group transactions relating to our transfer pricing arrangement from July 1, 2021 to June 30, 2022. In view of the abovementioned changes of the economic roles where WFOE undertook all the key functional activities related to game design and development from Wangchen Technology, while Wangchen Technology functioned as a game operator to the PRC market and Gala Sports HK continued to act as a routine business support service platform for our Group’s overseas business, the intercompany service fees and royalty charges are to maintain Wangchen Technology and Gala Sports HK routine and relatively stable returns and repatriate residual profits to WFOE. In this regard, in addition to the original benchmarking study performed for evaluating the Gala Sports HK’s returns for routine business support service, another two sets of benchmarking studies were conducted for evaluating the intercompany service fees and royalty charges for the period from July 1, 2021 to June 30, 2022.

- (1) Comparable uncontrolled price method (“CUP”) was selected as the most appropriate transfer pricing method, and percentage of sales was adopted as the royalty rate, for evaluating the royalty charge arrangement between Wangchen Technology and Gala Sports HK. The interquartile range of royalty rates extends from 2.00% to 5.00%, with a median of 3.00%.
- (2) TNMM was selected as the most appropriate transfer pricing method, and Return on Sales (“ROS”) was adopted as the profit level indicator, for evaluating the limited-risk returns for distributing games. The three-year weighted average inter-quartile range of ROS ratios results of companies that perform independent activities similar to the limited-risk game distribution activities performed by Wangchen Technology, extends from 1.97% to 3.78%, with a median of 2.41%.

By comparing to the results of the three sets of the benchmarking studies, Gala Sports HK, Wangchen Technology and WFOE, after having these intercompany service fees and royalty charges, all achieved reasonable profit returns for the period from July 1, 2021 to June 30, 2022. More specifically, Gala Sports HK maintained the arm’s length cost mark-up ratio (i.e., 5%), Wangchen Technology had the royalty income based on 3% (i.e., median value of the royalty benchmarking results) of the Gala Sports HK’s revenues and retained the limited-risk distribution profits at ROS 2.4% (i.e., median value of the benchmarking results for limited-risk game distribution), and the residual profits along the value chain were repatriated to WFOE.

Based on the economic analyses and transfer pricing assessment, our Group’s intra-group transactions from July 1, 2021 to June 30, 2022 were consistent with the arm’s length principle from both the PRC and Hong Kong transfer pricing perspectives.

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Accordingly, based on the transfer pricing review, our Directors, after consultation with our transfer pricing consultant, are of the view that the intra-group transactions conducted among WFOE, Wangchen Technology and Gala Sports HK during the Track Record Period satisfied the arm’s length principle from both the PRC and Hong Kong transfer pricing perspectives, and there is no need for any transfer pricing adjustment or provision within our Group, and that the transfer pricing risks of being challenged or investigated by the relevant tax authorities are relatively remote. In addition, our Directors and independent transfer pricing consultant are of the view that our Group is in compliance with the applicable transfer pricing laws and regulations in each of the relevant jurisdictions (i.e., Hong Kong and the PRC in this context where our Group has the operating entities) during the Track Record Period, including the transfer pricing documentation compliance requirements according to the applicable regulations. As confirmed by our Directors, our Group’s transfer pricing arrangements have not been challenged or investigated by any relevant tax authority in Hong Kong or PRC during the Track Record Period and up to the Latest Practicable Date.

We have taken various measures to ensure our ongoing compliance with relevant transfer pricing laws and regulations in jurisdictions where we operate, including (i) identification of updates on transfer pricing laws and regulations and assessment of related risks on our Group; (ii) regular review on our internal transfer pricing policy and exposure; (iii) monitoring the implementation of internal control policy and tax-related matters, including ensuring the intra-group transactions are properly recorded, filed and maintained for inspection to avoid any discrepancy before any filing to the relevant tax authorities; and (iv) designating our accounting manager to regularly monitor intra-group transactions and report to Mr. Chu Kai Chi, our Chief Financial Officer, to ensure such transactions can satisfy with the arm’s length principle. Given that the relevant intra-group transactions have been in compliance with the relevant transfer pricing laws and regulations in both Hong Kong and the PRC during the Track Record Period and based on the analysis mentioned above, our Directors are of the view that the above transfer pricing measures are sufficient to ensure future compliance from the transfer pricing perspective if the management continues to fully implement these measures.

OTHER TAXATION MATTERS

Our Group has engaged independent tax advisers to review our tax exposure in major jurisdictions where our transactions were conducted during the Track Record Period. During the Track Record Period, we were not subject to any material tax liabilities for corporate income taxes and transaction taxes, such as value added taxes in relation to the major jurisdictions where our transactions were conducted and no material non-compliance with the relevant tax laws and regulations in these jurisdictions had been identified. However, in the event that our Group may be subject to any overseas tax exposure, our Largest Shareholder undertakes to provide indemnities in respect of corporate income taxes, withholding taxes, value-added taxes (or similar) and any other relevant taxes in Taiwan, Japan, South Korea, Vietnam, United States and Thailand which any member of our Group may be subject to and payable on or before the date when the [REDACTED] becomes unconditional. Please refer to the section headed “Statutory and General Information — D. Other Information — 2. Estate Duty and Tax Indemnity” in Appendix IV to this document for further details on the Deed of Indemnity. Please refer to “Risk Factors — Risks Relating to our Business and Industry — Our business may be subject to potential tax liabilities from overseas jurisdictions” for further details on any risk on potential tax exposure in this document.

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OUR USERS

Our registered users

Users of our games are our ultimate customers, which are individual mobile sports game users due to the nature of our existing games launched. As we continue to launch more mobile sports games into the market, we had built up a steady growth of users in both the PRC and overseas markets. A breakdown of the number of total registered users by geographical locations⁽¹⁾ of our existing games during the Track Record Period are set out as follows:

Game	For the year ended December 31,			Six months ended June 30,		
	2019	2020	2021	2022		
	PRC	Overseas ⁽¹⁾	Total	PRC	Overseas ⁽¹⁾	Total
<i>Football Master</i> (足球大師)	773,472	1,956,804	2,730,276	1,010,271	3,357,720	4,367,991
<i>NBA Basketball Master</i> (NBA籃球大師)	9,257,373	613,248	9,870,621	11,969,705	796,160	12,765,865
<i>Football Champion</i> (最佳11人 — 冠軍球會)	13,678	11	13,689	880,675	8,350	889,025
Total⁽²⁾	10,044,523	2,570,063	12,614,586	13,860,651	4,162,230	18,022,881

Notes:

- The operational data of our games in overseas jurisdictions include users initially registering our games with recorded overseas IP addresses. For illustrative purpose only, the PRC excludes Hong Kong, Macau and Taiwan.
- The same individual may be counted for more than once if such individual is a user for multiple games.

Our total registered users of our *Football Master* (足球大師), *NBA Basketball Master* (NBA籃球大師) and *Football Champion* (最佳11人 — 冠軍球會) increased from approximately 12,600,000 as of December 31, 2019 to approximately 18,000,000 as of December 31, 2020, and further to approximately 29,000,000 as of December 31, 2021, at a CAGR of approximately 51.6% from 2019 to 2021. Our total registered users further increased by approximately 5,300,000, or 18.3%, to approximately 34,300,000 as of June 30, 2022.

Our paying users

Our customers are the paying users of our games during the Track Record Period. The total number of paying users of our existing mobile sports games during the Track Record Period are set forth as follows:

Game	Total number of paying users ⁽¹⁾ for the year ended December 31			Total number of paying users ⁽¹⁾ for the six months ended June 30,	
	2019	2020	2021	2021	2022
<i>Football Master</i> (足球大師)	238,800	141,096	95,112	50,195	37,285
<i>NBA Basketball Master</i> (NBA籃球大師)	543,756	549,624	385,248	197,679	212,698
<i>Football Champion</i> (最佳11人 — 冠軍球會) ⁽²⁾	1,039	172,584	513,636	145,564	342,545

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Notes:

- (1) The total number of paying users for each period of the Track Record Period above is estimated by multiplying our average MPUs of the corresponding period by 12 months.
- (2) *Football Champion (最佳11人 — 冠軍球會)* was launched in April 2020. Its total number of paying users for the year ended December 31, 2019 and for the first three months ended March 31, 2020 was generated from public testing during the year.

The total number of paying users of *Football Master (足球大師)* recorded 238,800 in 2019, 141,096 in 2020, 95,112 in 2021 and 37,285 for the six months ended June 30, 2022, respectively, of which the continual decreasing trend reflects a retention loss of paying users who are less loyal and relatively inactive during its then later period of stable and mature stage of lifecycle. According to the Frost & Sullivan Report, temporary fluctuation in the number of users is common for a Model B mobile sports game which enters into the stable and mature stage of its lifecycle; and after a game is launched, over time during its stable and mature stage, it is typical to have a lower number of paying users while having a relatively higher ARPPU when compared with its early growth stage due to the greater spending propensity of the loyal users and the retention loss of the less loyal users. Notwithstanding the decrease in the total number of paying users during the Track Record Period, the ARPPU of *Football Master (足球大師)* has increased from RMB682 in 2019 to RMB1,053 in 2020 and further to RMB1,371 in 2021, representing a CAGR of approximately 41.8%. The ARPPU of *Football Master (足球大師)* further increased from RMB1,371 in 2021 to RMB1,442 for the six months ended June 30, 2022. Such increasing trend of ARPPU exemplifies that our game is able to retain our core users, whose loyalty to our game and purchasing power are high.

Despite that the total number of paying users of *NBA Basketball Master (NBA籃球大師)* increased slightly from 543,756 in 2019 to 549,624 in 2020 but then decreased to 385,248 in 2021, the overall ARPPU of *NBA Basketball Master (NBA籃球大師)* increased at a CAGR of approximately 11.7% from RMB372 in 2019 to RMB403 in 2020 and further to RMB464 in 2021. During the six months ended June 30, 2022, the total number of paying users of *NBA Basketball Master (NBA籃球大師)* rebounded by approximately 7.6% to 212,698 from 197,679 for the corresponding period in 2021. As mentioned above, the temporary fluctuations in the number of paying users of *NBA Basketball Master (NBA籃球大師)* during the Track Record Period is common for a Model B mobile sports game during the stable and mature stage of its lifecycle according to the Frost & Sullivan Report.

Football Champion (最佳11人 — 冠軍球會) was officially launched in April 2020, and the total number of paying users of *Football Champion (最佳11人 — 冠軍球會)* experienced significant increase from 172,584 in 2020 to 513,636 in 2021, partly due to the introduction of the game in overseas markets, such as Hong Kong, Vietnam and South Korea from August to September 2021. The total number of paying users of *Football Champion (最佳11人 — 冠軍球會)* also increased by approximately 135.3% from 145,564 for the six months ended June 30, 2021 to 342,545 for the six months ended June 30, 2022. Correspondingly, the overall ARPPU of *Football Champion (最佳11人 — 冠軍球會)* increased by approximately 30.1% from RMB259 in 2020 to RMB337 in 2021, and further increased by approximately 48.4% to RMB500 for the six months ended June 30, 2022. For further details on the operating data of our existing games during the Track Record Period, please refer to “Our Game Portfolio — Existing game portfolio” in this section.

Due to our large customer base, our five highest paying users in aggregate contributed to less than 5% of the total revenue for each year/period during the Track Record Period.

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User concentration and our mitigation measures

The following table sets out a breakdown of the total number of paying users by top up amount during the Track Record Period:

Top up amount per year (RMB)	2019		Year ended December 31, 2020		2021		Six months ended June 30, 2022	
	Number of paying users	%	Number of paying users	%	Number of paying users	%	Number of paying users	%
0–100	435,029	80.5	507,275	82.7	574,017	79.4	331,241	76.8
> 100–500	62,464	11.6	63,536	10.4	88,440	12.2	56,703	13.2
> 500–1,000	14,703	2.7	13,977	2.3	20,901	2.9	14,424	3.3
> 1,000–2,000	9,966	1.9	9,341	1.5	14,338	2.0	9,944	2.3
Above 2,000	17,943	3.3	19,195	3.1	25,072	3.5	18,761	4.4
Total	540,105	100.0	613,324	100.0	722,768	100.0	431,073	100.0

Note: The above total number of paying users represents paying users who have made at least one purchase in our games during the respective year/period. A user who makes more than one purchase in such year/period in the same game is counted once only.

The following tables set out the breakdown of the aggregate top up amount contributed from our top 1%, 3%, 5%, 10%, 20% and 50% paying users (by top up amount) during the Track Record Period:

Year ended December 31, 2019					Percentage in the total top up amount of the Group
Top paying user group	Number of paying users	Average top up amount (RMB)	Range of top up amount (RMB)	Total top up amount of this group (RMB'000)	
1%	5,401	49,545	≥ 12,290	267,594	71.7%
3%	16,203	20,004	≥ 2,332	324,127	86.9%
5%	27,005	12,625	≥ 1,052	340,938	91.4%
10%	54,011	6,606	≥ 334	356,797	95.6%
20%	108,021	3,392	≥ 97	366,392	98.2%
50%	270,053	1,377	≥ 6	371,860	99.7%

Year ended December 31, 2020					Percentage in the total top up amount of the Group
Top paying user group	Number of paying users	Average top up amount (RMB)	Range of top up amount (RMB)	Total top up amount of this group (RMB'000)	
1%	6,133	50,886	≥ 11,020	312,087	75.0%
3%	18,400	20,074	≥ 2,097	369,368	88.8%
5%	30,666	12,586	≥ 869	385,972	92.8%
10%	61,332	6,532	≥ 268	400,592	96.3%
20%	122,665	3,339	≥ 73	409,609	98.5%
50%	306,662	1,351	≥ 6	414,244	99.6%

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Year ended December 31, 2021

Top paying user group	Number of paying users	Average top up amount (RMB)	Range of top up amount (RMB)	Total top up amount of this group (RMB'000)	Percentage in the total top up amount of the Group
1%	7,228	47,724	≥ 9,718	344,952	71.5%
3%	21,683	19,002	≥ 2,374	412,025	85.4%
5%	36,138	12,059	≥ 1,170	435,778	90.3%
10%	72,277	6,348	≥ 352	458,845	95.1%
20%	144,554	3,272	≥ 104	472,937	98.0%
50%	361,384	1,329	≥ 6	480,322	99.6%

Six months ended June 30, 2022

Top paying user group	Number of paying users	Average top up amount (RMB)	Range of top up amount (RMB)	Total top up amount of this group (RMB'000)	Percentage in the total top up amount of the Group
1%	4,311	46,724	≥ 12,280	201,428	64.7%
3%	12,932	19,627	≥ 3,174	253,817	81.6%
5%	21,554	12,676	≥ 1,586	273,210	87.8%
10%	43,107	6,781	≥ 500	292,319	94.0%
20%	86,215	3,524	≥ 134	303,845	97.7%
50%	215,537	1,438	≥ 12	309,837	99.6%

Due to the Group’s strategies to constantly engage and retain the core group of loyal users who demonstrate high paying potential and substantial purchasing capabilities and to maximize the monetization of such paying users, our top 1% paying users (by top up amount) contributed to approximately 71.7%, 75.0%, 71.5% and 64.7% of the total top up amount of our Group during the corresponding period. According to the Frost & Sullivan Report and to the best knowledge of our Directors, it is a common phenomenon in the online game industry that a relatively small group of paying users contribute to a substantial portion of the total revenue generated as it is a prevalent and effective business strategy of online game companies to retain the core group of loyal users with high in-game spending propensity, and the online game companies compete on their capabilities to maximize in-game spending of the core group of paying users to enhance the level of profitability. Therefore, our Directors and Frost & Sullivan are of the view that the revenue distribution by our game users is in line with the industry norm of the online game industry.

Nonetheless, in order to mitigate the concentration risk of our revenue contribution by a small group of paying users, our Group has carried out the following measures:

- (i) continue to develop and launch new games (including *MLB Baseball Master* (*MLB棒球大師*), *NBA Basketball Action* (*NBA操作籃球*) and *NFL American Football Master* (*NFL橄欖球大師*)) in the PRC and overseas markets to acquire more new users to broaden our base of paying users in order to dilute the user concentration; and

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- (ii) further intensify our marketing efforts in maintaining the popularity of our existing mobile sports games and promoting our new mobile sports games, such as increasing our advertisements through various online social media platforms dedicated to overseas audience, to effectively expand the reach of our game to a wider group of global users and to encourage more in-game spending by all of our paying users in order to diversify the revenue contribution from our top paying users.

OUR SUPPLIERS

Our top five suppliers

Purchases from our five largest suppliers in each year/period during the Track Record Period amounted to approximately RMB141.1 million, RMB152.6 million, RMB158.5 million and RMB126.4 million, representing approximately 52.4%, 54.1%, 50.0% and 58.4% of our total purchases for the respective year/period, respectively, and purchases from our largest supplier in each year/period during the Track Record Period amounted to approximately RMB57.2 million, RMB51.6 million, RMB57.9 million and RMB42.2 million, representing approximately 21.2%, 18.3%, 18.3% and 19.5% of our total purchases for the respective year/period, respectively. Our suppliers primarily include third-party distribution platforms, third-party publishers, third-party advertising and marketing service providers, server providers, and IP right holders. We mainly distribute our mobile games on third-party distribution platforms. Please refer to “— Our Business Model — Game publishing — Third-party distribution platforms” in this section. We also commission third-party advertising and marketing agencies to market and promote our mobile games by publicizing our games with links which direct users to the official website of our games and various third-party distribution platforms. Please refer to “— Our Business Model — Game publishing — Self-publishing” in this section. We lease servers hosted in internet data centers and engage cloud server service providers for providing operation and maintenance services for cloud servers and other server related systems such as our database. We procure IP right licenses from sports leagues, sports associations and sports clubs. Please refer to “— Our Business Model — Procurement of IP right licenses” for further details about obtaining IP right licenses from IP right holders in this section. For risk factors relating to our major suppliers, please refer to the sections headed “Risk Factors — Risks Relating to our Business and Industry — We rely on various third-party distribution platforms and third-party publishers to distribute, publish and promote our games. Our business may be materially and adversely affected if we fail to maintain stable relationship with them”, “Risk Factors — Risks Relating to our Business and Industry — We rely on third party payment vendors for payment collection. Any interruption of their services or unintended leakage of confidential information may materially and adversely affect our reputation, business and results of operation”, “Risk Factors — Risks Relating to our Business and Industry — “Any failure or significant interruption in our technology, including servers and network could impact our operations and harm our business” and “Risk Factors — Risks Relating to our Business and Industry — If we fail to renew the IP licensing agreements with IP right holders or obtain new IP right licenses, the quality of our games may significantly decrease.” in this document.

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The following tables set forth certain information of the major suppliers of our Group during the Track Record Period:

For the year ended December 31, 2019

Supplier	Transaction amount ⁽¹⁾ (RMB'000)	Percentage of total purchases (%)	Approximate years of business relationship	Services/ goods supplied	Principal activity and background	Credit term
Supplier A	57,167	21.2	Since October 2015	Game distribution	A technology company with mobile game publishing platforms, registered in the United States in 1977.	45 days
Supplier B	24,452	9.1	Since December 2016	Advertising services	An online advertising agency established in the PRC in 2013.	30 days
Supplier C	23,044	8.6	Since November 2017	Game distribution	A mobile game publishing company established in the PRC in 2017.	20 days
Supplier D	22,141	8.2	Since June 2017	Game distribution	A mobile phone technology developer and games publisher established in the PRC in 2005.	30 days
Supplier E	14,256	5.3	Since November 2016	IP right licenses	A sports events and content consultation company, established in the PRC in 2008.	Within 30 days of the end of each month, the royalty payments for the preceding month shall be made
Total	<u>141,060</u>	<u>52.4</u>				

Notes:

- (1) For revenue generated from games published by the third-party publishers or distributed by the third-party distribution platforms, proceeds from the sale of in-game tokens and other virtual items are collected by the third-party publishers or the third-party distribution platforms and revenue is shared between us at a pre-determined rate. As such, we generally grant the third-party publishers and the third-party distribution platforms credit term.

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For the year ended December 31, 2020

Supplier	Transaction amount ⁽¹⁾ (RMB'000)	Percentage of total purchases (%)	Duration of business relationship	Services/ goods supplied	Principal activity and background	Credit term
Supplier A	51,572	18.3	Since October 2015	Game distribution	A technology company with mobile games publishing platforms registered in the United States in 1977.	45 days
Supplier D	34,914	12.4	Since June 2017	Game distribution	A mobile phone technology developer and games publisher established in the PRC in 2005.	30 days
Supplier B	25,335	9.0	Since December 2016	Advertising services	An online advertising agency established in the PRC in 2013.	30 days
Supplier C	22,651	8.0	Since November 2017	Game distribution	A mobile game publishing company established in the PRC in 2017.	20 days
Supplier F ⁽²⁾	18,147	6.4	Since November 2019	Advertising services	An online advertising agency established in the PRC in 2017.	15 days
Total	<u>152,619</u>	<u>54.1</u>				

Notes:

- (1) For revenue generated from games published by the third-party publishers or distributed by the third-party distribution platforms, proceeds from the sale of in-game tokens and other virtual items are collected by the third-party publishers or the third-party distribution platforms and revenue is shared between us at a pre-determined rate. As such, we generally grant the third-party publishers and the third-party distribution platforms credit term.
- (2) Due to a change of operating entity in September 2020, Supplier F's new operating entity entered into a new service agreement with us, the terms which were substantially the same as the previous service agreement between our Company and the old operating entity of Supplier F. Therefore, the transaction amount with Supplier F for the year ended December 31, 2020 represented the aggregate of transaction amounts with each of the operating entities of Supplier F.

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For the year ended December 31, 2021

Supplier	Transaction amount ⁽¹⁾ (RMB'000)	Percentage of total purchases (%)	Duration of business relationship	Services/ goods supplied	Principal activity and background	Credit term
Supplier A	57,942	18.3	Since October 2015	Game distribution	A technology company with mobile games publishing platforms registered in the United States in 1977.	45 days
Supplier D	34,428	10.9	Since June 2017	Game Distribution	A mobile phone technology developer and games publisher established in the PRC in 2005.	30 days
Supplier B	27,062	8.5	Since December 2016	Advertising Services	An online advertising agency established in the PRC in 2013.	30 days
Supplier C	20,904	6.6	Since November 2017	Game Distribution	A mobile game publishing company established in the PRC in 2017.	20 days
Supplier G	18,174	5.7	Since December 2017	Advertising Services	An online advertising agency established in Hong Kong in 2010.	30 days
Total	<u>158,510</u>	<u>50.0</u>				

Notes:

- (1) For revenue generated from games published by the third-party publishers or distributed by the third-party distribution platforms, proceeds from the sale of in-game tokens and other virtual items are collected by the third-party publishers or the third-party distribution platforms and revenue is shared between us at a pre-determined rate. As such, we generally grant the third-party publishers and the third-party distribution platforms credit term.

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For the six months ended June 30, 2022

Supplier	Transaction amount ⁽¹⁾ (RMB'000)	Percentage of total purchases (%)	Duration of business relationship	Services/ goods supplied	Principal activity and background	Credit term
Supplier A	42,217	19.5	Since October 2015	Game distribution	A technology company with mobile game publishing platforms, registered in the United States in 1977.	45 days
Supplier G	33,559	15.5	Since December 2017	Advertising Services	An online advertising agency established in Hong Kong in 2010.	30 days
Supplier D	18,152	8.4	Since June 2017	Game distribution	A mobile phone technology developer and games publisher established in the PRC in 2005.	30 days
Supplier H	16,937	7.8	Since January 2022	Advertising Services	An online advertising agency established in the PRC in 2020	15 days
Supplier I	15,571	7.2	Since April 2016	IP right licenses	A corporation managing various commercial rights for affiliated professional football players and player associations, established in the Netherlands in 2004	Within 14 days after receipt of invoice
Total	<u>126,436</u>	<u>58.4</u>				

Notes:

- (1) For revenue generated from games published by the third-party publishers or distributed by the third-party distribution platforms, proceeds from the sale of in-game tokens and other virtual items are collected by the third-party publishers or the third-party distribution platforms and revenue is shared between us at a pre-determined rate. As such, we generally grant the third-party publishers and the third-party distribution platforms credit term.

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For the year ended December 31, 2020 and the six months ended June 30, 2022, we made provisions for impairment of trade receivables from an overdue payment by one of our historical major suppliers and one of our payment vendors which provided online payment services after completing the relevant game registration for *Football Champion* (最佳11人 — 冠軍球會) in Vietnam, of the unpaid amount owed to our Company of approximately RMB3.7 million and RMB1.8 million, respectively. We have served repeated payment demand requests on such supplier and payment vendor in attempt to recover such outstanding amounts which have been unpaid for a certain period of time in breach of the respective cooperation agreement between such supplier as well as payment vendor and us. Our finance team has been closely monitoring the collectability of such payments and continues to communicate with such supplier and payment vendor to obtain updates of their anticipated settlement. However, each of the supplier and payment vendor as mentioned above still failed to comply with the relevant proposed settlement schedule as of December 31, 2020 and June 30, 2022, respectively, and we have not recovered the outstanding amounts from each of the aforesaid supplier and payment vendor as of the Latest Practicable Date. For further details, please refer to the sections headed “Financial Information — Period to Period Comparison of Results of Operations — Year ended December 31, 2020 compared to Year ended December 31, 2019 — Net impairment losses on financial assets” and “Financial Information — Period to Period Comparison of Results of Operations — Six months ended June 30, 2022 compared to six months ended June 30, 2021 — Net impairment losses on financial assets”.

In view of such outstanding amounts, the Directors confirm that our Group does not intend to renew or extend the third-party publishing agreements or the payment service agreement nor continue to engage in business relationships with the aforesaid supplier and payment vendor upon expiration of such agreements. Given that the unpaid amount of each of the aforesaid supplier and payment vendor only accounted for less than 1% of the respective total revenue of our Group in 2020 and during the six months ended June 30, 2022 and that each of them was not one of our major suppliers during the Track Record Period, the Directors are of the view that it would not have any material adverse impact on the operations and financial conditions of our Group.

Our Directors confirm that the five largest suppliers during the Track Record Period were all Independent Third Parties. Our Directors confirm that none of our Directors, their respective close associates or any Shareholder (which to the knowledge of our Directors owns more than 5% of our share capital as of the Latest Practicable Date) had any interest, directly or indirectly in any of our five largest suppliers during the Track Record Period. Our Group did not experience any material disruption, disputes or delay in relation to the supply by our suppliers during the Track Record Period and up to the Latest Practicable Date.

Our top five advertising and marketing channels

During the Track Record Period, approximately 86.1%, 85.2%, 87.3% and 89.9% of our total advertising and marketing expenses were incurred to promote and market our Group’s games via our top five advertising and marketing channels, respectively. Please refer to the section headed “Financial Information — Description of Major Components of Our Results of Operations — Selling and marketing expenses” in this document for breakdowns of our advertising and marketing expenses attributable to our top five advertising and marketing channels during the Track Record Period.

Our Group continues to monitor and assess the effectiveness of our advertising and marketing strategies based on, among others, the acquisition cost per new user of different advertising and marketing channels, and adjust our advertising and marketing budgets thereon based on such cost-effectiveness of different advertising and marketing channels as well as our Group’s business

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strategies. As a result, our top five advertising and marketing channels experienced changes during the Track Record Period. In particular, Channel E, Channel G and Channel I are our major advertising and marketing channels in overseas markets. Along with our intensified expansion into overseas markets since 2021, Channel E and Channel G ranked second and third in our advertising and marketing channels respectively for the year ended December 31, 2021, and Channel I ranked fifth in our advertising marketing channels for the six months ended June 30, 2022, in terms of our advertising and marketing expenses incurred on the respective channel.

Based on the above, our Directors are of the view that, despite that a substantial amount of our advertising and marketing expenses were incurred to promote our Group’s games via our top five advertising and marketing channels, we have a variety of substitute advertising and marketing channels with comparable popularity readily available in the market that our Group can choose from. Thus, it is flexible for our Group to replace our advertising and marketing channels with other suitable market alternatives according to our Group’s advertising and marketing budgets and business strategies.

INTELLECTUAL PROPERTY

Protection of intellectual property rights is of significant importance to our business. Some of our intellectual property rights are in the form of software copyrights, trademarks, patents and domain names.

As of the Latest Practicable Date, we had:

- 23 registered trademarks in the PRC, one registered trademark in Hong Kong, one registered trademark in Taiwan and one registered trademark in the EU;
- 65 registered software copyrights in the PRC;
- one registered patent in the PRC; and
- five registered domain names in the PRC.

Further details of our material intellectual property rights are set forth in “Appendix IV — Statutory and General Information — B. Further Information about Our Business — 2. Intellectual property rights of our Group”.

We have taken steps to protect our intellectual property, including adopting internal policies regarding access to and use of information and entering into confidentiality agreements with our key employees.

Measures we have taken may not be adequate to prevent the infringement or misappropriation of our intellectual property. Also, we cannot be certain that our games and services do not or will not infringe valid patents, copyrights or other intellectual property rights held by third parties. We may be subject to legal proceedings and claims from time to time relating to the intellectual property of others. Please refer to the section headed “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, copyrights or other IP right licenses held by third parties. We may incur significant legal expenses in case of third-party claims.”

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As of the Latest Practicable Date, we have not been subject to any material dispute or claim for infringement of third parties’ intellectual property rights in the PRC.

EMPLOYEES

We had 367 full-time employees as of the Latest Practicable Date. Almost all of our employees are based in the PRC.

The following table sets forth the number of our employees by function as of the Latest Practicable Date:

Function	As of the Latest Practicable Date <i>Number of Employees</i>
Coach ⁽¹⁾	6
Commercial	1
Finance	5
Human resources	7
Executive	6
Sales and marketing	53
Maintenance	7
Research and development	227
Operation	27
Customer service	28
Total	<u>367</u>

Note:

- (1) The coach team mainly comprises the senior management of our Group, responsible for the overall strategic planning and final decision making for major matters of our Group’s operation.

Our success depends on our ability to attract, retain and motivate talented personnel. We believe we offer our employees competitive compensation packages, comprehensive training, attractive prospects and a friendly working environment, which have allowed us to maintain a stable management team and develop a growing employee culture. We recruit personnel based on various factors, including educational background or training, work experience, their motivations and personalities, and our vacancies and business needs. A majority of our employees hold bachelor’s or higher degrees.

We provide orientation and training to new recruits as well as ongoing in-house training for junior employees, which we believe can enhance the skills and productivity of our employees.

We compensate our employees with base salaries and performance-based bonuses. As required by PRC laws and regulations, we participate in various employee social security plans for our employees that are administered by local governments, including housing, pension, medical and

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unemployment insurance. We are required to make contributions to employee benefit plans at specified percentages of salaries, bonuses and certain allowances of our employees, up to a maximum amount specified by the local governments from time to time.

We contribute to social security insurance and housing provident funds for our employees in accordance with applicable PRC laws, rules and regulations.

We have entered into standard employment contracts with all of our employees. In addition, we have also entered into confidentiality agreements with all our employees, which agreements typically include confidentiality obligations and non-compete undertakings.

Our employees did not negotiate their terms of employment through any labor union or collective bargaining agreements during the Track Record Period. We did not experience any significant labor disputes or any difficulty in recruiting staff for our operations during the same period.

Our Directors and our PRC Legal Advisers confirm that, save as disclosed in “— Legal Proceedings and Compliance — Non-compliance Incidents with respect to Social Insurance and Housing Provident Fund Contributions” in this section, we have complied with the applicable employment laws and regulations in all material respects and there have been no outstanding material labor-related legal proceedings against us in the PRC as of the Latest Practicable Date.

COMPETITION

According to the Frost & Sullivan Report, as of December 31, 2021, there were approximately 480 companies in the online sports game market in the PRC. The market is fragmented with many relatively small companies with insignificant market influence. In particular, China’s mobile game industry is evolving rapidly and is highly competitive, as manifested by its frequent introduction of new products and services, limited product lifecycle, rapid introduction of new technological and equipment advancement, evolving industry standards and constantly changing user demands and preferences. We compete primarily with other mobile game developers, publishers and operators in the PRC and other major markets outside the PRC. We compete primarily on the basis of a number of factors, including development capabilities, ability to secure the suitable IP right licenses, utilization of advanced technology, ability to prolong the lifecycle of games, user base and engagement, marketing and promotional strategies, relationships with major third-party distribution platforms and publishers and our monetization tactics. We believe we compete favourably on these factors.

In light of the fragmented market, our Group differentiated ourselves from other market players by successfully securing and maintaining various IP right licenses from internationally renowned intellectual property holders, such as sports leagues, sports associations and sports clubs, including FIFPro, NBA and NBPA. It stands out as a unique competitive advantage of our Group considering that the process and selection criteria required to be satisfied by these sports leagues, sports associations and sports clubs in selecting their licensing partners is stringent. Having secured the IP right licenses from the internationally renowned intellectual property holders can be regarded as an endorsement of and recognition to the brand and capability of our Group to gain market influence from the local and global sports fans. We are also supported by an experienced, enthusiastic and dedicated management team and technical development staff capable of creating attractive sports games with sophisticated game interface and advanced game engines, such as 3D technology, AI technology and rendering technology, to simulate the real-life athletes and sports events. This serves as a technological advantage of our Group against other competitors in the

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mobile sports game market in the PRC which lack research and development capabilities. We also place strong emphasis on our data analytical capabilities that enable us to create attractive mobile sports games and to drive user engagement. With our continuous efforts in developing 3D technology to optimise gameplay scenes and visualisation effects and our data analytical capabilities, our Group is able to maintain this competitive advantage to outperform other market players in the mobile sports game industry in the PRC. Compared to the industry average weekly user retention rate of (i) approximately 10% for mobile sports games; (ii) ranging from 8% to 15% for sports management simulation games; and (iii) ranging from 8% to 15% for sports action simulation games, respectively, according to the Frost & Sullivan Report, the weekly user retention rates of our Group’s existing games during the Track Record Period are generally comparable to or higher than the industry average due to our Group’s devoted endeavors in optimizing game operation to enhance user engagement through the introduction of game updates, upgrades and variations that effectively appeal to the sports enthusiasts’ interest and preferences to retain our Group’s users. For details of our Group’s strategies and measures to retain users and increase their stickiness to each of our Group’s existing games, please refer to the section headed “Business — Existing game portfolio” in this document.

Moreover, our Group differentiated ourselves from other market players by the implementation of efficient monetization strategies to retain the core group of loyal and paying users of our mobile sports games and maximize their in-game spending, as well as cost-effective advertising and marketing capabilities to attract new users. Our Group’s continuous efforts and business strategies to actively promote the existing games and new games in the pipeline in the PRC and overseas markets allow us to acquire and accumulate a wider user base upon whom we could maximize our monetization strategies. With both our efficient monetization strategies and cost-efficient advertising and marketing capabilities, our Directors believe that our Group will be able to capture the market demand and hence gain the respective market share in the competitive sports mobile game market in the PRC and overseas markets.

Second only to the largest market player in terms of revenue from mobile sports game, our Group gains its competitive edge based on its ability to secure suitable IP right licenses, measures to prolong the lifecycle of our games and retain core loyal and paying users, as well as to incorporate advanced technology to optimize the graphics and engine of our games. On the other hand, even though online battle sports games do not seek to simulate the reality with the sports world development but aim to create an imaginative world for users to compete with each other, such games may also require the game developers and operators to acquire IP right licenses, such as from anime authors or companies, to create attractive game contents and to optimize gameplay with enhanced technology continuously to engage users’ interests.

Going forward, in view of the historical positive business relationship with and recognition by the internationally renowned proprietary IP right holders, our Group will strive to solidify such advantageous position over other market players to continue securing IP right licenses from other renowned sports leagues, sports associations and sports clubs in support of our further development of mobile sports games in different genres, such as, baseball and American football themed games. Our Group will also continue to strengthen our in-house research and development capabilities to achieve more future research and development breakthroughs in the development of existing games and new games in the pipeline to provide more sophisticated gameplay experiences to our users. With the continuous support from our Group’s management and development team with extensive experience and enthusiasm in the online sports game market, all these factors have allowed us to gain wider footage and to capture the vast and growing opportunities in such fragmented online sports game market in the PRC so as to reinforce and expand our market influence among the sports game users.

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Having said that, other mobile game companies could have greater financial, technological and marketing resources, which publish more quality games to compete with us and adversely affect our ability to attract and retain users. These companies, including other potential new entrants, may emerge and take advantage of the influence from social media to access to a large user base and network effects to grow rapidly. Please refer to the section headed “Industry Overview” in this document for further details about the industry landscape. Please also refer to the section headed “Risk factors — We may not be able to anticipate or successfully adapt to new trends and may face increasingly intense competition in the mobile game industry which makes it difficult for us to evaluate our business and prospects.” for further details about the risk of competition.

SEASONALITY

Our business may be subject to seasonality and fluctuations due to the opening and ending of sports seasons. As our mobile sports games aim to mimic the real-life sports events, there may be a spike of user activity from the opening of sports seasons and then there may experience a drop of user activity towards the end of the sports seasons. As real-life sports leagues, sports clubs and sports associations may also have personnel changes such as the transfer and/or recruitment of players or coaches, users who follow real life dynamic in football and basketball games closely would be expecting upgrades or updates to be made to our games during the off-seasons, when such changes will most likely occur in real life.

PROPERTIES

As of the Latest Practicable Date, we do not own any real properties. As of the Latest Practicable Date, we leased seven properties under lease agreements in the PRC, with an aggregate gross floor area of approximately 5,600 square meters. Our leased properties in the PRC are primarily used for business and office use. The lease agreements have terms ranging from one to three years and expiration dates ranging from March 28, 2023 to March 31, 2025.

For the property leased by Wangchen Technology with a gross floor area of approximately 1,200 square meters, which was leased as an ancillary studio for our research and development team to prepare 3D simulation model on sports players’ motion, the lessor with whom Wangchen Technology entered into the lease agreement cannot provide us with the relevant building ownership certificate of the leased property (the “**Defective Lease Property**”). Therefore, we are unable to confirm the identity of the owner of the Defective Lease Property and such lease agreement was not registered with the relevant PRC government authorities. There may exist a risk that the lessor from whom we leased such property may not have the right to lease such property to us and failure to register the lease agreement may lead to a maximum fine of RMB10,000 if the relevant PRC government authorities require us to rectify and we fail to do so within the specified time. Nevertheless, as advised by our PRC Legal Advisers, the failure of registering such lease does not affect the legality, validity and enforceability of the underlying lease agreement, and does not constitute a material non-compliance incident. If the lessor has no right to lease and the beneficial owner of such leased property refuses to recognize the lease agreement signed between the lessor and Wangchen Technology, Wangchen Technology may not be able to continue to use the Defective Lease Property. As advised by our PRC Legal Advisers, should any of such event occurs, Wangchen Technology can sue and claim damages from the lessor, who is the party at fault, pursuant to the Civil Code of the People’s Republic of China and/or on the grounds of a breach of contract pursuant to the relevant terms in the lease agreements.

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Despite the above, our Directors confirm that, the Defective Lease Property is not the primary office of Wangchen Technology but an ancillary studio for our research and development team to prepare 3D simulation model on sports players’ motion, which is easily replaceable, and not significant to our Group’s business activities. As of the Latest Practicable Date, we had not received any claims or notices or warning letters from the relevant governmental authorities or any third parties regarding our right to lease this property, nor any administrative penalty or order imposed by the relevant PRC authority in relation to the failure of registering such lease.

As of the Latest Practicable Date, since substantially most of our employees and our core business operations in the PRC were located in the WFOE office, our Directors believe that the Defective Lease Property is easily replaceable and there will not have any material adverse impact on the normal business operations of our Group. In the remote circumstance that we are forced to relocate the Defective Lease Property, our Directors estimate that the relocation costs of approximately RMB30,000 will be incurred and such relocation will take approximately one week.

As of the Latest Practicable Date, no single property interest forming part of our non-property activities had a carrying amount of 15% or more of our total assets. Accordingly, we are not required pursuant to Chapter 5 of the Listing Rules to value or include in this document any valuation report of our property interests.

INSURANCE

We do not maintain any business interruption or liability insurance to cover our operations in China or overseas, which, to the best knowledge of the Directors and according to the Frost & Sullivan Report, is consistent with customary industry practice of online game companies in the PRC. As of the Latest Practicable Date, we have maintained certain product liability insurance for our games through external insurers. During the Track Record Period, we did not make any material insurance claims in relation to our business. Please refer to the section headed “Risk Factors — Risks Relating to Our Business and Our Industry — Our limited insurance coverage could expose us to significant costs and business disruption.” in this document.

AWARDS AND RECOGNITION

During the Track Record Period, we have received awards and recognition. The major awards are set forth as follows:

Award	Issuing organization	Issuing year
New game of the year (年度新銳遊戲)	Toutiao (今日頭條)	2018
Technologically Advanced Small to Medium Enterprise of Shenzhen Municipality of 2021 (2021年度深圳市專精特 新中小企業)	Industry and Information Technology Bureau of Shenzhen Municipality (深圳市工業和信息化局)	2022

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LICENSES, PERMITS AND APPROVALS

According to our PRC Legal Advisers, we have obtained all requisite certificates, licenses, permits and approvals from the relevant government authorities under the relevant PRC laws and regulations that are material to our operations and business in all material respects in the PRC, and such certificates, licenses, permits and approvals are valid and remain in effect as of the Latest Practicable Date. To the best knowledge of our Directors, we believe that our Group has obtained the relevant licenses and permits in the jurisdictions that are material for our overseas operations where our games are published and such licenses and permits are valid and subsisting.

Please also refer to the section headed “Regulatory Overview” which sets out the relevant material laws and regulations applicable to our operations and business.

The following table sets forth details of our material licenses, permits and approvals:

License/Permit/Approval	Holder	Issuing Authority	Effective Date	Expiry Date
ICP License	Wangchen Technology	Guangdong Communications Administration	September 11, 2017	September 11, 2027
ICP License	Moji Technology	Guangdong Communications Administration	March 7, 2022	February 8, 2027

BUSINESS ACTIVITIES IN COUNTRIES SUBJECT TO INTERNATIONAL SANCTIONS

The United States and other jurisdictions or organizations, including the European Union, the United Nations, the United Kingdom and Australia (together, the “**Relevant Jurisdictions**”), have, through executive order, legislations or other government means, implemented measures that impose economic sanctions against certain countries, regions or targeted industry sectors, groups of companies or persons, and/or organisations within such countries and regions.

During the Track Record Period, a few users of our Group’s mobile games made a small number of low value in-app purchases using accounts registered with an IP address located in Cuba, Iran or Sudan (“**Cuban, Iranian and Sudanese IP Purchases**”), contributing in aggregate of RMB216, RMB1,139, nil and nil for the years ended December 2019, 2020 and 2021 and the six months ended June 30, 2022, respectively. Specifically, for Cuba, 17 users made in-app purchases in 2020 valued at RMB1,091. For Sudan, 13 users made in-app purchases in 2019 with a total value of RMB150, and six users made in-app purchase in 2020 with a total value of RMB48. For Iran, three users made in-app purchases in 2019 with a total value of RMB66.

We have engaged Hogan Lovells, our International Sanctions Legal Advisers to perform procedures to assess our compliance with International Sanctions laws and regulations and evaluate our risk of exposure and potential penalties imposed under the International Sanctions laws and regulations.

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As advised by our International Sanctions Legal Advisers, the Cuban, Iranian and Sudanese IP Purchases do not appear to represent a violation of US sanctions by us because comprehensive OFAC sanctions against Sudan were lifted in October 2017 and, for Cuba and Iran, (i) the users were downloading our non-US origin mobile games from a PRC-specific platform; (ii) the users were making RMB instead of USD payments; and (iii) our Company did not otherwise cause a US person to violate primary sanctions against Cuba, Iran or Sudan in connection with the Cuban, Iranian and Sudanese IP Purchases. Also, none of these transactions implicate any activities targeted by secondary sanctions against Cuba, Iran or Sudan. Similarly, the Cuban, Iranian and Sudanese IP Purchases do not appear to be in breach of EU/UK Overseas Territories sanctions because (i) the downloads occurred from a PRC-specific platform and did not implicate any EU/UK Overseas Territories based server; and we did not otherwise cause or incite an EU/UK Overseas Territories person to violate Cuban, Iranian or Sudanese sanctions. The EU/UK Overseas Territories do not maintain any sanctions against Cuba.

Moreover, as advised by our International Sanctions Legal Advisers, we did not violate the relevant sanctions in relation to any Primary Sanctioned Activity for the purpose of the guidance letter HKEX-GL101–19 issued by the Stock Exchange given that (a) we have not engaged during the Track Record Period in any Primary Sanctioned Activity because we had no USD-denominated business activities in a Sanctioned Country or (i) with; or (ii) directly or indirectly benefiting, or involving the property or interests in property of, a Sanctioned Target, that involved our Company’s violation of applicable sanctions; and (b) we would not appear to have violated applicable sanctions law or regulations in the Relevant Jurisdictions that could result in material sanctions risk to the Relevant Persons.

In addition, as advised by our International Sanctions Legal Advisers, we did not violate the relevant sanctions as a result of any Secondary Sanctionable Activity for the purpose of the guidance letter HKEX-GL101–19 issued by the Stock Exchange given that our Directors confirm that as of the Latest Practicable Date, our business activities were not targeted by extra-territorial provisions of sanctions law or regulation in the Relevant Jurisdictions. Further, given the scope of our [REDACTED] and the expected use of [REDACTED] as set out in this document, our International Sanctions Legal Advisers are of the view that the involvement by parties in the [REDACTED] will not implicate any applicable International Sanctions on such parties, including our Company, our Company’s [REDACTED], shareholders, the Stock Exchange and its [REDACTED] and group companies, or any person involved in the [REDACTED] and accordingly, the sanction risk exposure to our Company, its [REDACTED] and shareholders, and persons who might, directly or indirectly, be involved in permitting the [REDACTED], [REDACTED] and [REDACTED] of our Company’s shares (including the Stock Exchange, its [REDACTED] and related group companies) is very remote. As a result, we are not subject to any material contingent liabilities in relation to the Primary Sanctioned Activity or Secondary Sanctionable Activity during the Track Record Period.

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In order to control and monitor the sanctions risk to the Group, the following internal control and risk management measures have been implemented:

- We have adopted geo-block for each of our existing games to ensure that users with IP addresses from Comprehensively Sanctioned Countries are not allowed to register for, access to or make in-game purchases in our games to prevent violation of the relevant sanctions in relation to any Primary Sanction Activity and Secondary Sanctionable Activity for the purpose of the guidance letter HKEX-GL101-19 issued by the Stock Exchange in the future;
- If any potential sanctions risk or suspicious transaction is identified, we may seek advice from our external international legal counsel with necessary expertise and experience in International Sanctions matters; and
- We will arrange external international legal counsel to provide training programs to our Directors, senior management and other relevant personnel from time to time, and to provide advice and assistance in evaluating the potential sanctions risks in our daily operations, if necessary;

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

We are committed to leveraging our established business to deliver value, make contribution and fulfill our corporate responsibility for the society. Moreover, we endeavor to adhere to a high standard of corporate governance and operate our business with integrity and on a compliant basis by adopting and implementing our environmental, social and governance (“ESG”) policy set forth below.

Our ESG Policy

We have in place an ESG policy which sets out key ESG-related objectives and responsibilities. Pursuant to the ESG policy, our Board is required to review our core principles in terms of ESG matters on an annual basis, including maintaining ESG as a key priority for our employees; contributing to the community and public welfare through participation in activities concerning important social issues; fostering a culture of acting in accordance with the ESG policy; and monitoring and reporting key environmental and social risks, mitigation and opportunities for improvement.

ESG Oversight Committee

Under the ESG policy, we will establish an ESG Oversight Committee under our Board, and this ESG Oversight Committee will have responsibility for the identification, evaluation, prioritization and management of material ESG-related matters. Our ESG Oversight Committee will comprise our chief executive officer, head of legal, head of human resources, head of administrative management and other core management representatives as may be appropriate from time to time. Please refer to the section headed “Directors and Senior Management — Senior Management” for more information relevant to our senior management’s qualifications and experience.

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ESG Risks Identification, Assessment and Management Process

The ESG Oversight Committee will meet no less than annually to identify, evaluate and manage progress of annual key objectives agreed by our Board. The ESG Oversight Committee adopts a control and risk self-assessment methodology and continuously assesses and manages its ESG and climate-related risk profile. ESG and climate-related risks that are relevant to our Group’s business are identified, assessed and ranked according to their likelihood, financial consequence and reputation impact on our Group. The ESG Oversight Committee uses risk indicators and red flags to monitor the priority of risks identified and requires the head of respective business units of our Group to submit risk alerts with risk mitigation plan, and ESG and climate-related risk reports are presented to the ESG Oversight Committee for ongoing review and monitoring. Where the ESG Oversight Committee considers it necessary, it may engage a third party consultant to support us in fulfilling our ESG objectives. If we engage such third party, the ESG Oversight Committee will have responsibility for managing such third party. We will incorporate ESG-related matters into various training programs for our employees. The ESG Oversight Committee will also have primary responsibility for preparing our ESG report and devising mitigation and management measures to alleviate ESG risk and impact. The ESG Oversight Committee will report to our Board on an annual basis. Our Board will review the ESG policy, goals and targets annually and be responsible for approving the publication of our ESG report. The Board will also review the ESG policy to ensure its effectiveness and discuss and approve any revision that may be required from time to time.

Environmental Sustainability

Growing concerns about environmental impact and climate change have led to the adoption of various regulations and policies. The estimated magnitude of resulting impacts is evaluated over short, medium and long term horizons. We identified short-term environmental risks that in recent years, changing weather patterns due to environmental impact and climate change have increased the frequency of extreme weather conditions. Disasters created by extreme conditions or weather temperature could cause damage to our information technology facilities, resulting in temporary closures of our business operations and significant expense for maintenance, repair or replacement of damaged facilities. To manage and mitigate such impact, we will engage back-up facilities in case our information technology facilities cease to be functional. In the medium to long term, we identified environmental risks that increasingly enacted legislation and regulations as well as political policies in response to environmental impacts and climate change may have potential impact on our business operations and may subject us to additional restrictions and costs of compliance, which could negatively impact our financial condition and results of operations. Increasingly stringent laws and regulations may lead to restrictions being imposed on the use of resources, such as, usage limit on electricity for certain period, which would affect our implementation of future business strategies and growth in the long-term, as stable supply of electricity is vital to our business operation as a mobile game developer, publisher and operator. We will continue to remain alerted of any new requirements on environmental compliance and to engage qualified external consultant or legal adviser to advise us on how to mitigate the impact resulted therefrom. Internal measures to conserve electricity and water are taken by us to mitigate the impact on environment and climate change and to align with a resource saving economy.

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During the Track Record Period and up to the Latest Practicable Date, our Directors confirm that we have encountered no material accidents in our course of business with respect to environmental, health and workplace safety regulation in any jurisdiction in which we conducted business. Our Directors also confirm that we did not incur any material environmental, health, social and workplace safety compliance cost nor became subject to any fines or other penalties due to non-compliance with the relevant laws during the Track Record Period, and they are expected to remain at similar levels in the foreseeable future. We expect our future annual costs in relation to environmental, health and workplace safety compliance to be kept at minimal. Nonetheless, our Directors will continue to monitor the implementation of ESG policy and issues, and to assess and identify ESG risks in order for our Group to respond to any future change in relation to environmental, social and governance aspects, and to ensure compliance with the relevant legal and regulatory requirements. Upon [REDACTED], our Directors confirm that they will closely monitor and ensure compliance with the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 of the Listing Rules, the Environmental, Social and Governance Reporting Guide as set out in Appendix 27 of the Listing Rules and all relevant rules and regulations in relation to environmental, social and governance aspects.

Climate Related Issues

Growing concerns about climate change have led to the adoption of various regulations and policies. The potential climate change risks can be categorized into transition risks and physical risks.

Transition Risks

In regard to transition risks, in particular the evolving environmental and climate regulatory requirements that could increase our environmental protection and compliance expenses, we intend to carry out further environmental and climate due diligence to ensure our business activities comply with the requirements. Furthermore, we intend to set climate change as an important topic and to communicate with our shareholders and relevant stakeholders during the course of low-carbon economy transformation. We also plan to acquire more environmentally friendly appliances and equipment in line with the evolving environmental and climate standards.

Physical Risks

In regard to physical risks, such as the increase of extreme weather events which may disrupt our operations, damage our facility and equipment, we intend to enhance our practices of disaster drills to mitigate potential losses. In recent years, changing weather patterns due to climate change have increased in frequency of extreme weather conditions. Disasters created by extreme conditions could cause significant damage to or destruction of our business-related facilities, resulting in temporary or long-term closures of our facilities and operations and significant expense for repair or replacement of damaged or destroyed facilities. Given the nature of the mobile game business, we believe that there are less significant environmental or climate-related risks which may materially impact our business, strategy or financial performance. Nevertheless, we will continue to monitor and evaluate any potential climate related issues and risks that may materially affect our business and will promptly respond with the view to minimize such impact.

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Metrics and Targets

The Board will set metrics and targets for material KPIs for each financial year with reference to the disclosure requirements of Appendix 27 to the Listing Rules. Considering the nature of the mobile game business, the Board has identified energy and water as the key metrics and targets, of which we will endeavor to apply measures to conserve. These include the volume of electricity in kilo-Watt-hour (“kWh”) and water in litre consumed by our Group’s office premises. The following table sets forth the information in relation to our electricity and water consumption for the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2021:

Type of energy/resources	Unit	Year ended December 31,			Six months ended
		2019	2020	2021	June 30, 2022
Electricity					
Total consumption amount	'000 kWh	Approximately 255	Approximately 344	Approximately 373	Approximately 151
Water					
Total consumption amount	'000 litre	Approximately 978	Approximately 1,083	Approximately 1,289	Approximately 743

We strive to continue to reduce our energy and resources consumption. We have implemented the following measures to conserve electricity and water, including: (a) adjusting the temperature of office air-conditioning according to real-time weather; (b) encouraging the staff to leave curtains open to make full use of natural light and reduce the use of electricity; (c) reminding the staff to completely switch off computers and electronic devices after office hours or when they are not in use; and (d) conducting maintenance of pipelines and taps and inspecting any possible water leakage in our office facilities. We will implement the following electricity and water consumption targets (taking into account of the expected increase of number of employees and consumption in line with our business expansion) for each of the two years ending December 31, 2023:

Type of energy/resources	Unit	Annual performance target set by our Group for each of the two years ending December 31, 2023
Electricity		
Total consumption amount	’000 kWh	Approximately 430
Water		
Total consumption amount	’000 litre	Approximately 1,590

We intend to continue to reduce the level of our electricity and water usage per employee in the future, primarily through raising electricity and water conservation awareness among our employees and fostering a conservation culture within our Group through a variety of training programs and related events. We expect that this can also indirectly reduce our average greenhouse gases emission per employee.

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Social Responsibility

As one of the important tenets of our business, we aspire to be a socially responsible company that gives back and brings benefit to the community and society. While engaging in charity may incur additional expenses in the short term, we believe these activities instill a sense of pride and responsibility in our employees and help foster positive reputation of our Company in the long term. Guided by this commitment, we plan to participate in charity activities, both online and offline, covering important social issues in China, including natural disasters relief, COVID-19 pandemic donation, poverty alleviation, education and healthcare donation.

Corporate Governance

We are committed to shaping our corporate governance and culture to a high standard. We believe good corporate governance and healthy culture are essential to our employees’ well-being as well as our business development. To this end, we put in place measures as follows:

Occupational Health and Safety

We regard occupational health and safety as one of our most important responsibilities. We have implemented a number of measures to ensure compliance with applicable regulatory requirements which we are subject to. Our Directors confirm that our safety procedures are in line with the PRC industry standard practices and PRC safety regulations.

Employment

Our Group has established rules and procedures of recruitment, job promotion, compensation, benefits, rest periods, dismissal, etc., to protect our employees’ rights. During recruitment and job promotion, our Group follows the principle of “selection on merit”, taking into account the performance, work experience and capability of the applicant or employee. Our Group advocates a diverse and equal workforce culture by ensuring that applicants and employees are not discriminated against on the basis of gender, age, race, family status or physical disability. Our Group determines employees’ compensation packages on the basis of work performance and the market standard of remuneration. All of these measures aim to provide our employees with a fair work environment.

Development and training

Our Group believes that retaining talent and promoting teamwork are key to its long-term development, and is committed to enhancing the professional knowledge and skills of our employees. Our Group regularly participates in training seminars on topics such as compliance and corruption prevention. Our Group provides all employees with orientation training, including an introduction to corporate culture and on-the-job training, which enable them to quickly integrate into our Group and adapt to their jobs. To encourage development, our Group conducts employee assessments at the end of each year. Depending on their performance and responsibilities, our Group provides employees with promotion and training opportunities.

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Labor standards

Our Directors confirm that our Group does not employ children and prohibits any form of forced labor within our operations. Our Directors confirm that our Group has complied in all material aspects with the laws and regulations relating to child and forced labor. As an additional measure to avoid violating labor laws and regulations, our Group inspects all applicants’ identity documents during the recruitment process. Our Directors confirm that if any child labor or forced labor business is discovered, our Group shall seek legal advice and take corrective measures immediately.

Supplier management

Our Group prescribes transparent procurement procedures for selecting suitable suppliers in a fair, impartial and open manner. Our Group’s procedures ensure fair competition during our procurement, including adopting objective selection criteria. These procedures protect the interests of both our Group and the supplier. Our Group’s procurement considerations, including but not limited to service quality, pricing and delivery time, aim to reduce procurement risk and enhance procurement efficiency.

Corruption prevention

The Group strives to be ethical in our business operations, and does not tolerate any form of corruption, such as bribery, extortion, fraud or money laundering. Our Directors confirm that our Group complies with the laws and regulations regarding bribery, extortion, fraud and money laundering in all material aspects. Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, our Group received no allegations against us or our employees regarding bribery, extortion, fraud or money laundering. Our Group requires all employees to comply with professional ethics, and prohibits any form of corruption. Employees who are found to have committed corruption will be discharged from their duties and be held accountable for his/her judicial responsibility.

LEGAL PROCEEDINGS AND COMPLIANCE

Legal proceedings

We may from time to time become a party to various legal, arbitral or administrative proceedings arising in the ordinary course of our business. Our Directors confirm that, during the Track Record Period and up to the Latest Practicable Date, (i) no member of our Group was engaged in any material litigation, arbitration or administrative proceedings; and (ii) our Directors were not aware of any material litigation, arbitration or administrative proceedings pending or threatened against any member of our Group.

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Non-compliance Incidents with respect to Social Insurance and Housing Provident Fund Contributions

During the Track Record Period, our Group failed to make social insurance and housing provident fund contributions in full, a summary of which is set out below:

Non-compliance incident	Reasons for non-compliance	Legal consequences including potential maximum penalty and other financial liabilities	Remedial actions	Potential impact on our operations and financial condition
<p>Failure to make social insurance and housing provident fund contributions in full</p> <p>For the years ended December 31, 2019 and 2020, we had made payment of social insurance and housing provident fund contributions for our employees on a contribution base lower than the statutory standard.</p> <p>We estimate that the amount of under contributions during the years ended December 31, 2019 and 2020 were approximately RMB3.6 million, RMB0.2 million for social insurance contributions and RMB0.3 million and RMB0.1 million for housing provident fund contributions, respectively.</p>	<p>Our non-compliance was caused by the inadvertent and unintentional oversight and misunderstanding of PRC laws and regulations by our human resources department.</p> <p>Moreover, some of our employees were unwilling to have social insurance and housing provident fund paid in accordance with the required contribution level as they did not want to bear their portion of contributions.</p>	<p>If an employer fails to pay its social insurance contributions in accordance with the Social Insurance Law of the PRC (中華人民共和國社會保險法), the relevant authority may demand that the employer to pay all outstanding social insurance contributions within a prescribed time limit. The employer may also be subject to a surcharge at a daily rate of 0.05% on the outstanding amount, accruing from when the social insurance contribution was due. If the employer fails to make such payment within the prescribed time limit, the relevant authority may impose a further fine of one to three times the outstanding amount.</p> <p>Accordingly, the potential maximum penalties that our Group may incur from failure to make social insurance contributions in full would be approximately RMB5.5 million.</p> <p>If an employer fails to pay its housing provident fund contributions in accordance with the Regulations Concerning the Administration of Housing Provident Fund (住房公積金管理條例), the relevant authority has the power to order the employer to pay all outstanding housing provident fund contributions within a prescribed time limit. If the employer fails to make such payment within the prescribed time limit, an application of compulsory enforcement can be made to the People's Court of the PRC.</p> <p>Given that: (i) we have obtained letter of confirmation from, and relevant confirmation during our interview with the relevant competent authorities; and (ii) we have undertaken to, upon request by the competent social insurance and/or housing provident fund authorities, we shall pay the outstanding amount of social insurance contributions and the housing provident fund contributions, our PRC Legal Advisers are of the view that the risk of the competent authorities to take the initiative to impose penalties on us is remote.</p>	<p>We have obtained letters of confirmation from competent authorities in cities where we had employees during the Track Record Period and/or as of the Latest Practicable Date. And we have not been penalized for such non-compliance up to the Latest Practicable Date.</p> <p>We have obtained letters of confirmation from Shenzhen Social Insurance Fund Administration (深圳市社會保險基金管理局) on March 4, 2021, February 14, 2022 and July 28, 2022, and Shenzhen Housing Provident Fund Management Center (深圳市住房公積金管理中心) on March 4, 2021. We also obtained the Enterprise Credit Report with the inquiry date of March 3, 2022 and August 29, 2022 on the Credit Guangdong official platform (credit.gd.gov.cn), and letters of confirmation from Chengdu Hi-Tech Industrial Development Zone Community Development Management and Social Services Bureau (成都高新區社區發展治理和社會事業局) on March 15, 2021, February 11, 2022, and February 14, 2022, and Chengdu Housing Provident Fund Management Center (成都住房公積金管理中心) on March 17, 2021, and March 1, 2022 separately, confirming that we had not been penalized for violating the laws and regulations for social insurance and housing provident contributions.</p> <p>On August 20, 2019, the Sole Sponsor and PRC Legal Advisers have consulted Shenzhen Social Insurance Fund Administration (深圳市社會保險基金管理局) and Shenzhen Housing Provident Fund Management Center (深圳市住房公積金管理中心), which both confirmed that our past failure to make social insurance and housing provident fund contributions in full is not a material violation of laws and regulations and the authorities normally will not initiate proceedings including imposition of surcharge or fine or compulsory enforcement to court against enterprises in similar cases. On July 10, 2020, the Sole Sponsor and PRC Legal Advisers have consulted Chengdu High-tech Industrial Development Zone Social Insurance Fund Administration (成都市高新區社會保險事業管理處) and further conducted interview with Chengdu Housing Provident Fund Management Centre on July 15, 2020, during which it was confirmed that our past failure to make social insurance and housing provident fund in full is not a material violation of laws and regulations and the authorities normally will not initiate proceedings including imposition of surcharge or fine or compulsory enforcement to court against enterprises in similar cases.</p> <p>As advised by our PRC Legal Advisers, the aforementioned government authorities have the authority and are competent to make the aforesaid confirmations.</p> <p>Based on the foregoing, our PRC Legal Advisers is of the view that the risk of the competent social insurance and housing provident fund authorities to take the initiative in demanding us to pay outstanding contributions or imposing surcharge penalties or taking compulsory enforcement to court on us is remote. No provision has been made for the underpaid social insurance and housing provident fund contributions.</p> <p>For details of internal control measures adopted by us as part of the remedial measures, please refer to the section headed “Enhanced Internal Control Measures”</p>	<p>Given the written confirmations obtained from the competent authorities, the advice from our PRC Legal Advisers and the remedial measures outlined herein, on the basis that our Group has complied with all applicable PRC laws and regulations from April, 2020 separately in relation to social insurance and housing provident fund, this non-compliant incident will not have a material adverse effect on our business operation and financial performance during the Track Record Period up to the Latest Practicable Date and after [REDACTED].</p>

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Save for the abovementioned, our Directors confirm that we have no other material and systemic non-compliance of applicable laws and regulations in the PRC that had or would reasonably be expected to have material financial or operational impact on our business during the Track Record Period and up to the Latest Practicable Date. We are of the view that we have complied, in all material respects, with the relevant laws and regulations in the jurisdictions of our main operations during the Track Record Period and up to the Latest Practicable Date.

Enhanced Internal Control Measures

In accordance with the applicable PRC and Hong Kong laws and regulations, we have implemented measures with a view to establishing and maintaining our internal control system, including monitoring of operational processes, the establishment of risk management policies and compliance with applicable laws and regulations. In particular:

- (i) our Directors have attended trainings conducted by our Hong Kong legal advisers on the ongoing obligations, duties and responsibilities of directors of publicly listed companies under the Companies Ordinance, the SFO and the Listing Rules and our Directors are fully aware of their duties and responsibilities as directors of a listed company in Hong Kong;
- (ii) we have instituted procedures for lines of communication and provided a process by which our employees can identify and report potential non-compliance exposures;
- (iii) we have appointed UOB Kay Hian (Hong Kong) Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules to ensure that, among other things, we are properly guided and advised as to compliance with the Listing Rules and all other applicable laws, rules, codes and guidelines;
- (iv) we have established an audit committee which comprises three independent non-executive Directors. The audit committee has also adopted its terms of reference which set out clearly its duties and obligations for ensuring compliance with the relevant regulatory requirements. In particular, the audit committee is empowered under its terms of reference to review any arrangement which may raise concerns about possible improprieties in financial reporting, internal control or other matters;
- (v) our Company has appointed Mr. Chu Kai Chi, our Chief Financial Officer as our company secretary to oversee the company secretarial matters of our Company; and
- (vi) our Company will, from time to time, appoint external legal advisers, where applicable, to advise us on compliance with and to provide us with updates on the changes in the Listing Rules and the applicable laws, rules and regulations from time to time to see if any change is required to be made with our operation and internal control system.

We have appointed an independent internal control adviser to conduct an internal control review. The internal control adviser has reviewed the implementation status of the above corrective actions. The above corrective actions are consistent with those recommended by the internal control adviser in addressing some key findings of its review on our internal controls. Based on the findings, recommendations and testing results of the work performed by the internal control adviser, our Directors are of the view that such remedial actions are adequate and effective.

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Having taken into account the fact that (i) our Group has taken corrective measures and the abovementioned non-compliance incident has been rectified to the extent practicable; (ii) our Group has implemented the abovementioned additional measures to prevent re-occurrence of any non-compliance incident; and (iii) the non-compliance incident was unintentional, did not involve fraudulent act on the part of our Directors or cast doubt on their integrity, our Directors are of the view, and the Sole Sponsor concurs, that the abovementioned non-compliance incident will not have any material adverse effect on our operations and financial condition; and such incident does not have any material impact on the suitability of our Directors and our suitability for [REDACTED]. Our Directors are satisfied that our internal control system is adequate and effective for our current operating environment.

INTERNAL CONTROL

It is the responsibility of our Board to ensure that our Company maintains sound and effective internal controls to safeguard our Shareholders’ interests and our Group’s assets at all times. To manage risks and to ensure the smooth operation of our business, we have engaged the internal control adviser to assist us in reviewing our internal control system, and provide recommendations for improving our internal control system. The internal control adviser has also conducted assessments on (i) our mechanisms and internal control measures in complying the relevant laws and regulations relating to data and security protection; (ii) our operational control over the game management system; (iii) information technology general control measures; and (iv) the integrity and reasonableness of our key operational data. For more details on the key operational data of each mobile sports games, please refer to “— Our Games Pipeline — Existing game portfolio” in this section. The internal control adviser has conducted agreed-upon review procedures on our internal control system and recommended improvements to strengthen our corporate governance. We have adopted a series of internal control policies and procedures designed to provide reasonable assurances for achieving objectives including effective and efficient operations, reliable financial reporting and compliance with applicable laws and regulations. Highlights of our internal control system include the following:

Financial reporting. We have adopted comprehensive policies and procedures in connection with our financial reporting and disclosure controls, including financial report management policies, budget management policies and financial statement preparation policies. We provide ongoing training to employees in our finance department to ensure that such policies are observed and implemented.

Licensing. In accordance with our internal measures, our administrative team is assigned to ensure we have all necessary licenses for our business operation and to keep track of the licensing update and renewal.

Human resource. We have internal control policies covering various aspects of human resource management such as recruiting, training, work ethics and legal compliance. We provide specific training tailored to the needs of our employees in various departments. Our employee handbook contains guidelines on work ethics and prevention of fraud and corruption. Furthermore, the human resources policy stipulates that the human resources function is responsible for monitoring the requirements of the latest labour laws and regulations and ensuring that they are reflected in current practice.

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Compliance with Listing Rules and relevant laws and regulations. We will continue to monitor our compliance with relevant laws and regulations and our senior management team will work closely with our employees to implement actions required to ensure our compliance with relevant laws and regulations. We will also continue to arrange ongoing training to be provided by Hong Kong legal advisers to our Directors, senior management and employees on the Listing Rules, including but not limited to aspects related to corporate governance and connected transactions, and by our PRC Legal Advisers on PRC laws and regulations. Our senior management, internal audit team and the Audit Committee together will monitor the implementation of our internal control system on an ongoing basis to ensure our policies and implementation are effective and sufficient.

Based on the findings, recommendations and testing results of the work performed by the internal control adviser, our Directors are of the view that, we have implemented the enhanced internal control measures recommended and our internal control measures and policies with regard to the relevant regulatory requirements, game management system and IT general controls in place are adequate and effective to support the daily operations of our Group.

RISK MANAGEMENT

The ultimate goal of our risk management process is to bring focus and effort to the issues arising from our business operations that create impediments to our success. Our risk management process starts with identifying the major risks that are associated with our corporate strategy, goals and business operation. We adopted risk management policies to assess our risks in terms of their likelihood and potential impact, and then prioritize and pair each risk with a mitigation plan. We provide training to our employees and adopt risk management measures to ensure that all employees are aware of and responsible for managing risks. Each of our operating departments is responsible for identifying and analyzing risks associated with its function. Our established departments, the Audit Committee, and ultimately our Board supervises the implementation of our risk management policy at the corporate level by bringing together each operating department, such as development, quality control, sales and marketing to collaborate on mitigating risk issues among different functions. For details about the qualifications and experience of the members of the Audit Committee of and our Board, please refer to the section headed “Directors and Senior Management — Board Committee” in this document. The following table sets out some of the primary risks relating to our business and our existing risk management measures:

Risk identified	Our risk management measures and procedures
Information risk management, cybersecurity and data protection	We have implemented relevant internal procedures and controls to ensure that user data are protected and that leakage and loss of such data is avoided. During the Track Record Period and up to the Latest Practicable Date, we did not experience any material information leakage or loss of user data.

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Risk identified

Our risk management measures and procedures

Our Company strives to ensure that our usage, maintenance and protection of user data are in compliance with our internal rules and the applicable laws and regulations, including the Cyber Security Law of the People’s Republic of China, the Information Security Technology — Personal Information Security Specification, the Self-assessment Guide for the Illegal Collection of Personal Information by Mobile Applications, the Provisions on the Cyber Protection of Children’s Personal Information, the Notice on Preventing Minors’ Addiction to Online Games and the Online Game Consumer Rights Protection Industry Standard. We provide regular training to our information technology team and discuss any issues and necessary updates.

External communication policies

We have introduced written policies on external communications and procedures for handling enquiries from regulatory authorities. We have also appointed a contact person who will be responsible for our external communications and ensure implementation of our external communication policies.

Conflict of interest reporting and policy

We require our new employees to undertake that they will not participate in or carry on any business which is in competition with our Group, and shall not be employed or engaged by any other third party while employed by us. We have also introduced a conflict of interest policy for directors and management to regulate and regularly report any existing and potential conflicts of interest.

Procedures and policies on anti-bribery and anti-corruption

Our staff from the research and development department, finance department and sales and marketing department are required to comply with anti-bribery and anti-corruption controls. We have introduced a reporting mechanism and regular declarations of conflicts of interests for all staff, as well as provide regular training on corruption and bribery prevention.

Procedures on connected transactions

We have introduced procedures for the approval of connected transactions, comprising connected transactions identification and testing, decision making authority, information disclosure, auditing and financial reconciliation procedures. Under the procedures on connected transactions, approval from our Board is required prior to the entry into any connected transaction.

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There are various other risks relating to our business and operations and market risks in the ordinary course of our business. For further details, please refer to the sections headed “Risk Factors” and “Financial Information — Major Factors Affecting Our Results of Operations” in this document.

IMPACT OF THE OUTBREAK OF COVID-19 ON OUR OPERATION IN THE PRC

Background

Starting in January 2020, the COVID-19 pandemic has spread around the world. As of the Latest Practicable Date, such outbreak has affected public health in the world and significantly disrupted global travel and economy. In order to combat the COVID-19 outbreak, PRC government authorities have imposed various controls and restrictions, which include quarantine order to restrict entry and exit and temporary suspension of work in various provinces and cities.

With the measures implemented by the PRC government and information available to our Directors as of the Latest Practicable Date, our Directors believe that the COVID-19 pandemic would not have a permanent impact on our Group as our business activities as game development, publishing and operation function could be substantially conducted online and by our staff working from home, if necessary. The potential impact of COVID-19 pandemic on our Group’s operations in the PRC as discussed here is prepared according to the best estimate and belief of our Directors, based on latest information available to our Directors as of the Latest Practicable Date, subject to development of the COVID-19 outbreak in the PRC. For details of the relevant risks, please refer to the section headed “Risk Factors — We face risks related to natural disasters and health epidemics in China and other markets where we operate which could significantly disrupt our operations” in this document.

Potential Impact on the Online Game Industry

According to the Frost & Sullivan Report, it is expected that the market size of online game market in the PRC will continue to grow and reach approximately RMB436.1 billion in 2026, with a CAGR of approximately 6.7% from 2021 to 2026 due to continuous technological innovation and increasing deployment of 5G internet in the PRC in the future. Besides, unlike other industries which are susceptible to the adverse impact of the ongoing COVID-19 pandemic due to social distancing and various lockdown measures, the online and mobile game industry may benefit from the pandemic as more people may be compelled to stay indoor and may spend more time on mobile games for entertainment in lieu of outdoor activities. As of the Latest Practicable Date, the social distancing and various lockdown measures have been gradually removed by the PRC government, and it is expected that people may gradually spend more time on outdoor activities which may in turn reduce their average online gaming time. Nevertheless, the removal of social distancing and various lockdown measures is beneficial to mobile sports simulation games to the extent that if the real-life sports events return to normal schedule, the game developers would be able to synchronize its mobile sports simulation games with the actual events and development of the real-life sports world to maintain and boost the popularity of the games. In addition, sports fans would be able to participate in more offline gatherings and meet each other in person should the social distancing and various lockdown measures are removed, which may in turn strengthen their passions for such sports and accordingly spend more time on mobile sports simulation games.

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However, such temporary favourable impact on mobile sports management simulation games may not be as significant as other mobile games. This is because sports management simulation games are designed to mimic the dynamics in the real-life sports world and their core gameplay design aims to allow users to build and manage a sports team that closely resembles the one in reality. We therefore strive to synchronize our sports management simulation games with the actual events or development of the real-life sports world by introducing in-game promotional activities, new gameplay contents and features from time to time, especially at various festive occasions or global sports events. For instance, we have introduced the Star of the Countries event and offered limited edition virtual items for *Football Champion* (最佳11人 — 冠軍球會) during the UEFA Champions League in order to ride on the global football frenzy to maintain and boost the popularity of the game.

In this regard, due to the outbreak of COVID-19, most global sports events, such as the NBA, the World Cup, the English Premier League, UEFA Champions League as well as 2020 Tokyo Olympic Games, were temporarily suspended or delayed in 2020, which consequently adversely affected and delayed the synchronization of our sports management simulation games with these real-life sports events. As such, the temporary postponement of global sports events during the outbreak of COVID-19 had an adverse impact on the revenue growth of our games which to certain extent offset its favourable impact by lowering the frequency of content updates for our games, and thereby affecting the implementation of our monetization strategies despite the positive impact brought to the mobile game industry in general.

Unlike mobile sports management simulation games, the outbreak of COVID-19 and consequential temporary postponement of global sports events may have relatively less negative impact on mobile sports action simulation games. This is mainly attributable to the difference in gameplay, where mobile sports action simulation games are less dependent on content updates mirroring global sports events but focus more on the users’ manual steering skills. In mobile sports action simulation games, users’ own technical skills in steering the virtual players play a more important role to determine the outcome of in-game battles. It follows that the users could differentiate themselves in the in-game battles as they steer virtual players with better skills and strategies regardless of any content update with the development of real-life sports world. Therefore, the outbreak of COVID-19 may have better boosted the growth of mobile sports action simulation games in a way that as people are required to comply with the social distancing requirements under various lockdown measures implemented by local governments, and thereby have more time to practise and improve their steering skills in mobile sports action simulation games. By improving their skills through more practices, and as the sense of satisfaction grows, users would become more engaged in the mobile sports action simulation games.

Therefore, notwithstanding that the outbreak of COVID-19 would have temporary favourable impact on the online and mobile game market as a whole, the temporary postponement of global sports events may have an adverse impact on mobile sports management simulation games which, to a certain extent, offsets the favourable impact from the outbreak of COVID-19. As such, our Group, with the primary focus on mobile sports management simulation games during 2019 to 2021, recorded a total revenue growth of only approximately 6.9% and 13.6% in 2020 and 2021, respectively, as compared with the growth of the PRC’s mobile sports game market of approximately 21.1% and 26.1% in 2020 and 2021, respectively.

Going forward, our Group aims to capture more growth opportunities in the PRC’s mobile sports game market by enriching our game portfolio with mobile sports action simulation games such as our newly launched *Total Football* (最佳球會) and the three new games in the pipeline. Besides, according to the Frost & Sullivan Report, the growth of approximately 21.1% and 26.1% in

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the PRC’s mobile sports game market in 2020 and 2021, respectively was not solely attributable to the positive impact brought by the outbreak of COVID-19, but also the continuous technological advancement in the mobile game industry over the past five years, such as the rapid development of the internet and the increase in popularity of smart phones, thereby increasing the user base of mobile games and contributing to the growth of the mobile sports game market at a CAGR of approximately 29.4% from 2016 to 2021. From 2016 to 2021, there witnessed a considerable growth in the number of mobile internet users in the PRC, which increased at a CAGR of approximately 7.7% from 695.3 million in 2016 to 1,006.7 million in 2021. Also, due to the increasing disposable income and the availability of easily accessible online payment methods, it is expected that the level of user’s spending on mobile games in the PRC will continue to grow.

Furthermore, the number of 5G base stations has reached 1.43 million in 2021 and is anticipated to increase to 4.62 million in 2026. With a better coverage of 5G network, more areas will be provided with access to high speed, ultra-low latency and reliable mobile internet services, which in turn would enhance the gaming experience of mobile sports game users and boost the growth of the mobile sports game market. Also, considering that the users’ gaming habits formed during the COVID-19 pandemic is likely to linger afterwards, it is expected that the overall PRC’s mobile sports game market will continue to experience a steady growth at a CAGR of approximately 12.4% from 2021 to 2026.

Resumption Plan of Operation of our offices

To facilitate the prevention and control of the spread of COVID-19 pandemic and implementation of our preventive measures so as to minimize the risks of infection among our staff, we implemented work-from-home arrangement for our staff from early to mid February in 2020. By mid-February in 2020, we resumed operation in full capacity and were not aware of any employee who was unable to resume duties in offices due to quarantine restriction, transportation issues or travel restrictions. In light of (i) the gradual resumption of logistics and transportation in Shenzhen due to the COVID-19 pandemic and (ii) the resumption plan of operation of our offices, our Group’s business operation had not been materially affected by the outbreak of COVID-19. Our Directors confirm that there had been no material potential loss or penalty due to our temporary suspension of office since the outbreak of COVID-19 and up to the Latest Practicable Date.

Supplies and Supply Chain

Our suppliers primarily include third-party distribution platforms, third-party publishers, advertising and marketing agencies, server providers and IP right holders. Considering that (i) the substantial operation of our suppliers can be conducted online; and (ii) the gradual resumption of operation of offices; to the best knowledge of our Directors, our Directors did not expect our Group to experience any significant disruption of provision of services by our suppliers in the remaining periods of 2022 which may materially affect our operation. Up to the Latest Practicable Date, we have not experienced any significant disruption and/or shortage of services provided by our suppliers which adversely affect our operation materially.

Potential Impact on our Business

The outbreak of COVID-19 had minimal adverse impact on our business operations mainly because of the fact that the substantial operation of our business can be conducted online, including development, publication and operation of mobile games. Although the PRC government has taken measures such as lockdown of cities, travel restrictions, temporary work suspension and quarantine requirements as well as other measures on social-distancing across the country in order to prevent

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and control the spread of COVID-19 pandemic, the implementation of work-from-home arrangement for our staff, would not materially affect our business operations. Our Directors confirm that the impact on our game development projects brought by the outbreak of COVID-19 is minimal. We implemented work-from-home arrangement for our staff from early to mid February 2020 to facilitate the prevention and control of the spread of COVID-19 pandemic. Despite the work-from-home arrangement, the productivity and efficiency of our research and development team did not experience any significant adverse impact due to the effective use of online productivity tools, such as video call applications, collaborative production tools, etc. Likewise, the development agenda of our new games did not experience any significant delay or disruption during the period. Also, our business performance further improved for the years ended December 31, 2020 and 2021 and the six months ended June 30, 2022 since the outbreak of COVID-19 partly because the demand of indoor entertainment activities increased, in particular, online and mobile games. As online and mobile games became the most versatile and accessible form of entertainment under quarantine, social-distancing restrictions and border lockdown, our total revenue increased from approximately RMB378.6 million for the year ended December 31, 2019 to approximately RMB404.7 million for the year ended December 31, 2020 and further to approximately RMB459.9 million for the year ended December 31, 2021, generated primarily from our mobile sports games. In addition, our total revenue further increased by approximately 62.9% from approximately RMB181.0 million for the six months ended June 30, 2021 to approximately RMB294.8 million for the six months ended June 30, 2022. Our Directors confirm that the impact from the outbreak of COVID-19 on our Group’s expansion plan is minimal.

Accordingly, our Directors are of the view that the impact of the outbreak of COVID-19 on our business was relatively limited. Considering that (i) the limited adverse impact on our business operation, including game development, publication and operation; (ii) the revenue generated from our mobile games which also experienced less adverse impact despite the outbreak of COVID-19; (iii) our financial resources presently available to us; (iv) the historical monthly cash inflow and outflow for our business operations; and (v) other latest information available to our Directors, our Directors are of the view that the impact of the outbreak of COVID-19 on our business, results of operations and financial conditions was relatively limited in the long run. The Directors will remain alert and will closely monitor the impact of COVID-19 on our Group’s operation and financial performance and assess the market situation in light of any future development of COVID-19. We will take appropriate measures as necessary and inform our Shareholders and potential investors as and when necessary.

According to the Frost & Sullivan Report, the global mobile game market witnessed a stable growth with the market size achieving a CAGR of 18.6% from 2016 to 2021, and it is expected that the growth of the global mobile game market will maintain an upward momentum from 2021 to 2026. However, due to the relaxation of pandemic control measures on a worldwide scale, a decline in consumer spending on in-app purchases in our major markets such as the United States, Japan and the PRC due to the economic downturn, and a rise in advertising costs, the global mobile game market may be exposed to downward pressure in the short term despite an overall long-term growth trajectory. Our Directors and the Sole Sponsor concur with the above assessment by Frost & Sullivan in relation to the long-term outlook on the global mobile game market. In light of the long-term outlook of global mobile game market, our Directors, based on our competitive strengths and our strategies, believe that our Group’s games, including the existing games and new games in the pipeline, will benefit from the overall upward trend of the global mobile game market despite fluctuations and temporary adverse effects to be brought by the aforesaid downward pressure.

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Precautionary Measures and Contingency Plan in Response to COVID-19

In compliance with relevant public announcements and notices issued by PRC governmental authorities to contain the COVID-19 pandemic, we adopted various additional precautionary measures to maintain a safe and hygienic environment of our offices. Such measures are in line with the policies issued by the local governments in China, and those we have implemented at our office premises include:

- postponing the re-opening schedule of our offices in line with the policies issued by the local governments in China;
- implementing work-from-home arrangement for our office staff;
- temperature checks to be done and recorded by our staff every day;
- distributing the personal protective equipment to our staffs; and
- increased frequency of cleaning areas with high human contact, such as common spaces, meeting rooms, toilets and handrails.

Our Directors confirm that the postponement of re-opening schedules of our offices for a short period of time in Shenzhen had no material adverse effects on our business, given that majority of our operations, such as the development, publication and operation of mobile games could be substantially conducted online. Our Directors expect that the annual expenses for the above epidemic prevention measures would be approximately RMB25,000.

RELATIONSHIP WITH OUR LARGEST SHAREHOLDER

OUR LARGEST SHAREHOLDER

Immediately upon completion of the [REDACTED], the [REDACTED] and full conversion of the Pre-[REDACTED] Convertible Bonds and without taking into account any Shares which may be issued pursuant to the exercise of options that may be granted under the Share Option Scheme, Mr. Jia will, via Great Shine, beneficially own and control approximately [REDACTED]% of the issued share capital our Company and will be our Largest Shareholder.

Great Shine is an investment holding company which is wholly owned by Mr. Jia. Mr. Jia is one of our Founders, the chairman of our Board, one of our executive Directors and our chief executive officer. For Mr. Jia’s background, please see “Directors and Senior Management” in this document. Neither Mr. Jia nor any of his close associates (including Great Shine but other than any member of our Group) is interested in any business which is, whether directly or indirectly, in competition with our business.

INDEPENDENCE FROM OUR LARGEST SHAREHOLDER

We believe that we are capable of carrying on our business independently without undue reliance on our Largest Shareholder and his close associates (other than any member of our Group) after [REDACTED] for the following reasons:

Management independence

Our Board comprises three executive Directors and three independent non-executive Directors. Our day-to-day management and operational decisions are made by our executive Directors and senior management, most of whom have served us for more than three years and have substantive industry experience. Please refer to “Directors and Senior Management” in this document.

Each of our Directors is aware of his fiduciary duties as a Director, which require, among other things, that he acts for the benefit and in the best interests of our Company and does not allow any conflict between his duties as a Director and his personal interest. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective close associates (other than any member of our Group), the interested Director(s) shall abstain from voting at the relevant board meetings of our Company in respect of such transactions and shall not be counted in the quorum.

Based on the reasons above, our Directors are of the view that our Group is capable of managing our business independently from our Largest Shareholder and his close associates (other than any member of our Group) after the [REDACTED].

Operational independence

We have full rights, hold and enjoy the benefit of all relevant licenses and permits, have sufficient capital and employees necessary to make all decisions on, and to carry out, our own business operation independent from our Largest Shareholder and his close associates (other than any member of our Group) and will continue to do so after the [REDACTED].

Our Group has a large and diversified base of customers that are unrelated to our Largest Shareholder and/or his close associates (other than any member of our Group). We have independent access to such customers, our suppliers as well as our other business partners.

RELATIONSHIP WITH OUR LARGEST SHAREHOLDER

We have our own team of employees. We recruit our employees independently from our Largest Shareholder and his close associates (other than any member of our Group). We have entered into standard employment contracts with our employees. In addition, we have also entered into confidentiality agreements with our employees, which agreements typically include confidentiality obligations and non-compete undertakings effective of typically three years during and after their employment with us.

Details of the continuing connected transactions between our Group and our connected persons which will continue after the completion of the [REDACTED] are set out in the section headed “Contractual Arrangements” in this document. Our Directors are of the view that such continuing connected transactions are conducted in our ordinary and usual course of business and are not expected to affect our operational independence as a whole.

Having considered the above factors, our Directors are satisfied that we will be able to function and operate independently from our Largest Shareholder and his close associates (other than any member of our Group).

Financial independence

We have our own internal control and accounting systems, accounting and finance department, independent treasury function for cash receipts and payment and independent access to third party financing. Accordingly, we believe we are able to maintain financial independence from our Largest Shareholder and his close associates (other than any member of our Group).

CORPORATE GOVERNANCE MEASURES

To manage any potential conflict of interest that may arise between our Group (on the one hand) and our Largest Shareholder or our Directors (on the other hand), we have implemented the following corporate governance measures:

- (a) in preparation for the [REDACTED], we have conditionally adopted the Articles of Association which complies with the Listing Rules. In particular, pursuant to our Articles of Association, unless otherwise provided, a Director shall not vote on any resolution approving any contract or arrangement or any other proposal in which such Director or any of his associates (other than any member of our Group) has a material interest nor shall such Director be counted in the quorum present at the meeting;
- (b) if any Director and/or any of his associates (other than any member of our Group) has or is deemed to have any material interests in any matter to be resolved at any Board meeting, such Director shall make full disclosure of his or his associate’s interests and abstain from voting on the relevant resolutions at the Board meeting, unless the attendance or participation of such Director at such meeting of the Board is specifically requested by a majority of the disinterested Directors;
- (c) we are committed that our Board should include a balanced composition of executive Directors and independent non-executive Directors. Our Board is currently comprised of six Directors, including three executive Directors and three independent non-executive Directors, hence independent non-executive Directors represent half of the number of our Directors which exceeds the requirement that at least one-third of the Board shall comprise independent non-executive directors as set out in the Listing Rules;

RELATIONSHIP WITH OUR LARGEST SHAREHOLDER

- (d) we believe our independent non-executive Directors possess sufficient experience and they are free of any business or other relationship which could interfere in any material manner with the exercise of their independent judgment as a whole. For the biographical details of our independent non-executive Directors, see “Directors and Senior Management — Board of Directors — Independent non-executive Directors” in this document. In the event that our independent non-executive Directors are required to review any matter concerning any conflict of interests between our Group (on the one hand) and our Largest Shareholder or any of our Directors (on the other hand), our Company and/or our Largest Shareholder (as the case may be) shall provide the independent non-executive Directors with all necessary information, and we believe that the independent non-executive Directors will be able to provide impartial and professional advice to protect the interests of our Company and our Shareholders as a whole;
- (e) where a Shareholders’ meeting is to be held for considering proposed transactions in which our Largest Shareholder or any of his associates (other than any member of our Group) has a material interest, they shall not vote on the resolutions and shall not be counted in the quorum for the voting;
- (f) upon [REDACTED], if our Company enters into connected transactions with any connected persons of our Company (including, without limitation, our Largest Shareholder, any Director or any of their respective associates, other than any member of our Group), our Company shall comply with the applicable Listing Rules; and
- (g) we have appointed UOB Kay Hian (Hong Kong) Limited as our compliance adviser, which will provide advice and guidance to us in respect of compliance with the applicable laws and the Listing Rules including various requirements relating to Directors’ duties and corporate governance.

Based on the above, our Directors are satisfied that sufficient corporate governance measures have been put in place to manage conflicts of interest between our Group (on the one hand) and our Largest Shareholder or our Directors (on the other hand), and to protect the interests of our Shareholders as a whole after the [REDACTED].

CONNECTED TRANSACTIONS

OVERVIEW

We have entered into a number of agreements with our connected persons, the details of which are set out below. The transactions disclosed in this section will constitute our continuing connected transactions under Chapter 14A of the Listing Rules upon the [REDACTED].

CONNECTED PERSONS

The table below sets forth the connected persons of our Company involved in the connected transactions set out in this section and the nature of their connection with our Group:

Connected Persons	Connected Relationship
Mr. Jia	Chairman of our Board, executive Director, chief executive officer and substantial shareholder of our Company
Mr. Huang	Executive Director and substantial shareholder of our Company
Mr. Li Xin	Executive Director of our Company
Mr. Zhang Litao	Director of Wangchen Technology
Wangchen Technology	Associate of Mr. Jia
Moji Technology	Associate of Mr. Jia

We set out below details of the non-exempted continuing connected transactions for our Group, which are subject to the reporting, annual review, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Contractual Arrangements

Background

As disclosed in “Contractual Arrangements” in this document, the business operations of the PRC Operating Entities constitute a business restricted or prohibited to foreign investment in the PRC, therefore, we cannot directly acquire equity interests in the PRC Operating Entities. As a result, our Group has entered into the Contractual Arrangements narrowly tailored to provide our Group with control over the PRC Operating Entities and grant our Group the right to acquire interests of the PRC Operating Entities when and to the extent permitted by the PRC laws and regulations. Under the Contractual Arrangements, our Group supervises and controls the business operations and obtains all economic benefits developed by the PRC Operating Entities.

The Contractual Arrangements consist of a series of agreements. For further details, see the section headed “Contractual Arrangements” of this document. Our PRC Legal Advisers have advised that the Contractual Arrangements as a whole and each of the agreements comprising the Contractual Arrangements are legal, valid and binding on the parties under applicable PRC laws and regulations, for details of which, please refer to the section headed “Contractual Arrangements — Legality of the Contractual Arrangements” of this document.

CONNECTED TRANSACTIONS

Listing Rules implications

Pursuant to Rules 14A.35, 14A.36, 14A.49 and 14A.55 of the Listing Rules, the transactions contemplated under the Contractual Arrangements will be subject to the reporting, annual review, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

APPLICATION FOR WAIVER

Contractual Arrangements

Pursuant to Rule 14A.105 of the Listing Rules, our Company has applied to the Stock Exchange for, and the Stock Exchange has agreed to grant, a waiver from strict compliance with (i) announcement and independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules in respect of the transactions under the Contractual Arrangements; (ii) the requirement of setting a maximum aggregate annual value (i.e. an annual cap) for the fees payable to our Group under the Contractual Arrangements; and (iii) the requirement of limiting the term of the Contractual Arrangements to three years or less, for so long as our Shares are [REDACTED] on the Stock Exchange, subject to the following conditions:

(a) No change without independent non-executive Directors’ approval

No change to any of the agreements constituting the Contractual Arrangements will be made without the approval of the independent non-executive Directors.

(b) No change without independent Shareholders’ approval

Save as described in paragraph (d) below, no changes to the agreements governing the Contractual Arrangements will be made without the approval of the independent Shareholders. Once the independent Shareholders’ approval of any change has been obtained, no further announcement or approval of the independent Shareholders will be required under Chapter 14A of the Listing Rules unless and until further changes are proposed. The periodic reporting requirement regarding the Contractual Arrangements in the annual reports of our Company (as set out in paragraph (e) below) will however continue to be applicable.

(c) Economic benefits flexibility

The Contractual Arrangements shall continue to enable our Group to receive the economic benefits derived by the PRC Operating Entities through (i) our Group’s option (if and when so allowed under the applicable PRC laws) to acquire all or part of the entire equity interests in the PRC Operating Entities at the minimum amount of consideration permitted by applicable PRC laws and regulations; (ii) the business structure under which the consolidated net profits 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 WFOE under the Exclusive Business Cooperation Agreement (as defined in “Contractual Arrangements — Our Contractual Arrangements — Exclusive Business Cooperation Agreement” in this document); and (iii) our Group’s right to control the management and operation of, as well as, in substance, all of the voting rights of the PRC Operating Entities.

CONNECTED TRANSACTIONS

(d) Renewal

On the basis that the Contractual Arrangements provide an acceptable framework for the relationship between our Company and our subsidiaries in which our Company has direct shareholding, on 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 the connected persons of our Company and transactions between these connected persons and our Company other than those under similar contractual arrangements shall comply with Chapter 14A of the Listing Rules. This condition is subject to relevant PRC laws, regulations and approvals.

(e) Ongoing reporting and approvals

We will disclose details relating to the Contractual Arrangements on an ongoing basis as follows:

- The Contractual Arrangements in place during each financial period will be disclosed in the annual reports of our Company in accordance with the relevant provisions of the Listing Rules.
- Our independent non-executive Directors will review the Contractual Arrangements annually and confirm in the annual reports of our Company for the relevant year that: (i) the transactions carried out during such year have been entered into in accordance with the relevant provisions of the Contractual Arrangements; (ii) no dividends or other distributions have been made by the PRC Operating Entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group; and (iii) any new contracts entered into, renewed or reproduced between our Group and the PRC Operating Entities during the relevant financial period under paragraph (d) above are fair and reasonable, or advantageous, so far as our Group is concerned and in the interests of our Company and 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 and have been entered into in accordance with the relevant Contractual Arrangements and that no dividends or other distributions have been made by the PRC Operating Entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group.

CONNECTED TRANSACTIONS

- For the purposes of Chapter 14A of the Listing Rules, and in particular the definition of “connected person,” our PRC Operating Entities will be treated as our wholly-owned 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, our 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 with full access to its relevant records for the purpose of our Company’s auditor’s review of the connected transactions.

OUR DIRECTORS’ VIEW

Our Directors, including our independent non-executive Directors, are of the view that the contracts constituting the Contractual Arrangements and the transactions contemplated thereunder are fundamental to our Group’s legal structure and business operations and that the Contractual Arrangements 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 as far as our Group is concerned and are in the interests of our Company and our Shareholders as whole.

THE SOLE SPONSOR’S VIEW

The Sole Sponsor has reviewed the relevant documents and information provided by our Group, has obtained necessary representations and confirmations from our Company and our Directors and has participated in the due diligence and discussions with our management and our PRC Legal Advisers. Based on the above, the Sole Sponsor is of the view that the contracts constituting Contractual Arrangements and the transactions contemplated thereunder are fundamental to our Group’s legal structure and business operations and that the Contractual Arrangements 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 as far as our Group is concerned and are in the interests of our Company and our Shareholders as a whole.

DIRECTORS AND SENIOR MANAGEMENT

BOARD OF DIRECTORS

Our Board currently consists of six Directors comprising three executive Directors and three independent non-executive Directors. The powers and duties of our Board include convening general meetings and reporting our Board’s work at our Shareholders’ meetings, determining our business and investment plans, preparing our annual financial budgets and final reports, formulating proposals for profit distributions and exercising other powers, functions and duties as conferred by the Articles. We have entered into service agreements with each of our executive Directors. We have also entered into letters of appointment with each of our independent non-executive Directors.

The following table sets forth certain information in respect of members of our Board and senior management of our Company:

Members of our Board

Name	Age	Date of joining our Group	Date of appointment as Director	Existing position in our Group	Roles and responsibilities in our Group	Relationship with other Directors and senior management
Mr. Jia Xiaodong (賈小東)	35	Upon founding of our Group	June 12, 2018	Chairman of the Board, executive Director and chief executive officer	Responsible for formulating the overall business direction and strategic planning of our Group	None
Mr. Huang Xiang (黃翔)	38	Upon founding of our Group	June 12, 2018	Executive Director	Responsible for overseeing the operations and technical aspects (including product development and know-how management) of our Group	None
Mr. Li Xin (李欣)	39	April 18, 2016	June 12, 2018	Executive Director	Responsible for overseeing the financial management, human resources management, marketing and business development of our Group	None
Mr. Zhan Peixun (詹培勛)	34	December 20, 2022	December 20, 2022	Independent non-executive Director	Responsible for providing independent advice on the operations and management of our Group	None

THIS DOCUMENT IS IN DRAFT FORM, INCOMPLETE AND SUBJECT TO CHANGE AND THAT THE INFORMATION MUST BE READ IN CONJUNCTION WITH THE SECTION HEADED “WARNING” ON THE COVER OF THIS DOCUMENT.

DIRECTORS AND SENIOR MANAGEMENT

Name	Age	Date of joining our Group	Date of appointment as Director	Existing position in our Group	Roles and responsibilities in our Group	Relationship with other Directors and senior management
Mr. Leung Ming Shu (梁銘樞)	47	December 20, 2022	December 20, 2022	Independent non-executive Director	Responsible for providing independent advice on the operations and management of our Group	None
Ms. Chak Hoi Kee Clara (霍凱琪)	49	December 20, 2022	December 20, 2022	Independent non-executive Director	Responsible for providing independent advice on the operations and management of our Group	None

Members of our senior management

Name	Age	Date of joining our Group	Date of appointment to current position	Existing position in our Group	Roles and responsibilities in our Group	Relationship with other Directors and senior management
Mr. Zeng Ke (曾科)	38	April 14, 2014	April 14, 2014	Vice president	Responsible for project management and engine development of our Group	None
Mr. Chu Kai Chi (朱啟智)	38	October 21, 2019	October 21, 2019	Chief Financial Officer and company secretary	Responsible for overseeing the financial management, capital market operations and company secretarial affairs of our Group	None
Mr. Zhao Xin (趙鑫)	34	April 18, 2016	April 18, 2016	Vice president	Responsible for overseeing the business development for the domestic and overseas markets of our Group	None
Mr. Guo Yuheng (郭宇恆)	35	November 19, 2018	November 19, 2018	Vice president	Responsible for overseeing the product development and planning of our Group	None

DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Jia Xiaodong (賈小東), aged 35, co-founded our Group with Mr. Huang in December 2013. Mr. Jia was appointed as our Director on June 12, 2018 and was re-designated as our executive Director and appointed as the chairman of our Board and the chief executive officer of our Group on June 23, 2021. Mr. Jia is primarily responsible for formulating the overall business direction and strategic planning of our Group. Mr. Jia is also a director of certain other members of our Group.

Prior to founding our Group in December 2013, from June 2010 to August 2013, Mr. Jia served as the main planner of “Fantasy Basketball Manager” and product manager of Shenzhen Fantasy Technology Co., Ltd. (深圳市範特西科技有限公司), and was subsequently promoted to be the general manager of the mobile department, where he was primarily responsible for the research and development of this company’s only mobile game at the time, team management, publishing management and market development.

Mr. Jia has been a qualified High-Level Talents (高層次人才) certified by Human Resources Bureau of Bao’an District, Shenzhen (深圳市寶安區人力資源局) since October 2018 and a qualified High-Level Professional (高層次專業人才) certified by Human Resources and Social Security Administration of Shenzhen Municipality (深圳市人力資源和社會保障局) since May 2018.

Mr. Jia obtained a bachelor’s degree in telecommunications engineering from Xi’an College of Posts & Telecommunications (西安郵電學院) in the PRC in July 2010 and obtained a master’s degree in science in telecommunications from The Hong Kong University of Science and Technology in Hong Kong in November 2012.

Mr. Jia was the legal representative, executive director and general manager of (i) 深圳市夢想世界科技有限公司 (for identification only, Shenzhen Dream World Technology Co., Ltd.), a company established in the PRC with limited liability in November 2013, which was deregistered in the PRC in April 2018 and (ii) 深圳掌上競藝軟件技術有限公司 (for identification only, Shenzhen Zhangshangjingyi Software Technology Co., Ltd.), a company established in the PRC with limited liability in December 2020, which was deregistered in the PRC in January 2022. Mr. Jia confirmed that (i) each of the above company was solvent upon its deregistration; and (ii) as at the Latest Practicable Date, no claims or penalties had been made against him and he was not aware of any actual or potential claims or penalties that had been or would be made against him as a result of the deregistration of each of the above company.

Mr. Huang Xiang (黃翔), aged 38, co-founded our Group with Mr. Jia in December 2013. He was appointed as our Director on June 12, 2018 and was re-designated as our executive Director on June 23, 2021. Mr. Huang has been primarily responsible for overseeing the operations and technical aspects (including product development and know-how management) of our Group. Mr. Huang is also a director of certain other members of our Group, including Gala Technology (BVI) and Gala Technology (HK).

Mr. Huang has over 11 years of experience in the electronic engineering industry. From 2009 to 2012, Mr. Huang served as a software engineer at In2media Group, a creative digital agency, where he was primarily responsible for creative content and 3D engine development.

Mr. Huang obtained a bachelor’s degree in business administration from Changsha University of Science and Technology (長沙理工大學) in the PRC in June 2006 and he is currently a doctoral student majoring in engineering science in Tsinghua University (清華大學) in the PRC.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Huang was (i) the responsible person of 深圳市創真視界科技有限公司杭州分公司 (for identification only, Shenzhen Chuangzhen Shijie Technology Co., Ltd. Hangzhou Branch Company), a branch company of Chuangzhen Shijie established in the PRC, which was deregistered in the PRC in January 2019, and (ii) the supervisor of 深圳掌上競藝軟件技術有限公司 (for identification only, Shenzhen Zhangshangjingyi Software Technology Co., Ltd.), a company established in the PRC with limited liability in December 2020, which was deregistered in the PRC in January 2022. Mr. Huang confirmed that (i) each of the above company was solvent upon its deregistration; and (ii) as at the Latest Practicable Date, no claims or penalties had been made against him and he was not aware of any actual or potential claims or penalties that had been or would be made against him as a result of the deregistration of each of the above company.

On December 8, 2020, the business licence of 北京創真視通科技有限公司 (for identification only, Beijing Chuangzhen Shitong Technology Co., Ltd.) (“**Beijing Chuangzhen**”), a PRC company for which Mr. Huang was registered as legal representative and director, was revoked (the “**Revocation**”) because Beijing Chuangzhen failed to commence operations after the lapse of more than six months from the date of its establishment. As confirmed by Mr. Huang, (i) the original plan was for Beijing Chuangzhen to be a project company for developing 3-D reconstruction technology, however given such plan did not subsequently materialize, Beijing Chuangzhen had been dormant since its establishment; (ii) he delegated the administrative matters concerning Beijing Chuangzhen to support staff and due to inadvertent oversight, the support staff did not arrange to deregister Beijing Chuangzhen within the statutory time limit under the applicable PRC laws; and (iii) to the best of his knowledge, information and belief, Beijing Chuangzhen was solvent at the time of the Revocation and no claims or penalties had been made against him and he was not aware of any actual or potential claim or penalties that had been or would be made against him as a result of the Revocation as at the Latest Practicable Date. Following the Revocation, Mr. Huang may not be qualified to be registered as supervisor, director or senior manager of any company established in the PRC for a period of three years from the date of the Revocation pursuant to the applicable provisions under the PRC Company Law (the “**Suspension**”). On June 17, 2021, Beijing Chuangzhen obtained clearance for its deregistration from the relevant local branch of the SAIC.

Our Board is of the view that Mr. Huang is suitable to be our executive Director notwithstanding the Revocation and the Suspension on the following grounds: (1) he is one of our Founders and has made significant contributions to our business development since our inception. He possesses valuable industry experience and knowledge and could continue to lead our Group’s operations and further development as our executive Director; (2) the Revocation arose due to inadvertent oversight of the support staff and did not involve his dishonesty or bad faith, and it was reasonable for Mr. Huang to delegate the administrative matters concerning Beijing Chuangzhen to support staff so that he could focus on his senior management role of overseeing the operations and technical aspects (including product development and know-how management) of our Group; (3) as advised by our PRC Legal Advisers, as at the Latest Practicable Date, no administrative penalties had been made against Mr. Huang relating to the Revocation; and (4) Mr. Huang has attended relevant training provided by the legal advisers to our Company on the duties and responsibilities of the directors of a Hong Kong listed issuer under the Listing Rules and other applicable securities laws and regulations in Hong Kong to strengthen his awareness and knowledge. As a result, our Directors are of the view, and the PRC Legal Advisers as well as the Sole Sponsor concur, that the Revocation and the Suspension would not have any material impact on the business operations of the Company during the Track Record Period and up to the Latest Practicable Date. Having considered the factors set out above, including but not limited to the view of our Board and

DIRECTORS AND SENIOR MANAGEMENT

our PRC Legal Advisers, pursuant to Rules 3.08 and 3.09 of the Listing Rules, the Sole Sponsor is of the view that Mr. Huang is suitable to be an executive Director of our Company notwithstanding the Revocation and the Suspension.

Mr. Li Xin (李欣), aged 39, was appointed as our Director on June 12, 2018 and was re-designated as our executive Director on June 23, 2021. He is primarily responsible for overseeing the financial management, human resources management, marketing and business development of our Group. Mr. Li is also a director of Gala Technology (HK).

Prior to joining our Group in April 2016, from May 2010 to March 2014, Mr. Li served as a head of business development department of Chengdu High-tech Investment Group Co., Ltd. (成都高新投資集團有限公司), an investment company, where he was primarily responsible for overseeing the sales and business development. From April 2014 to April 2016, he served as a vice president of Tap4fun Co., Ltd. (成都創人所愛科技股份有限公司), a mobile game development and publishing company, where he was primarily responsible for overseeing the business development, investment and overall management.

Mr. Li obtained a bachelor's degree in information engineering from Shanghai Jiaotong University (上海交通大學) in the PRC in July 2006.

Mr. Li was the legal representative, executive director and general manager of 霍爾果斯阿瑟萊特網絡科技有限公司 (for identification only, Khorgas Aetherlight Network Technology Co., Ltd.) and 成都喬戈裏文化傳播有限公司 (for identification only, Chengdu Qiaogeli Cultural Communications Co., Ltd.), each a company established in the PRC with limited liability, which were deregistered in the PRC in March 2019 and December 2018, respectively. Prior to deregistration, the business licence of Chengdu Qiaogeli Cultural Communications Co., Ltd. was revoked in June 2017, which occurred more than three years preceding the Latest Practicable Date. As confirmed by our PRC Legal Advisers, as at the Latest Practicable Date, Mr. Li was not restricted under the PRC Company Law to be registered as a director, supervisor or senior manager of any PRC entity. Mr. Li confirmed that (i) each of the above companies was solvent upon its deregistration; and (ii) as at the Latest Practicable Date, no claims or penalties had been made against him and he was not aware of any actual or potential claims or penalties that had been or would be made against him as a result of the deregistration of the above companies. Having considered the above, including but not limited to the view of our Board and our PRC Legal Advisers, pursuant to Rules 3.08 and 3.09 of the Listing Rules, the Sole Sponsor is of the view that Mr. Li is suitable to be an executive Director of our Company.

Independent non-executive Directors

Mr. Zhan Peixun (詹培勛), aged 34, was appointed as an independent non-executive Director on December 20, 2022. He is primarily responsible for providing independent advice on the operations and management of our Group.

Mr. Zhan has more than 5 years of finance experience. From December 2012 till now, he has been serving as director at Shenzhen Chiu Heung Tea Co., Ltd (深圳潮鄉茶業有限公司), a brand retail firm, where he is mainly responsible for company strategy development and public relation management. Since May 2018, he has been serving as a director at Shenzhen Bonuo Management Consulting Company Limited (深圳博諾管理諮詢有限責任公司), a business consulting firm, where he is mainly responsible for providing professional advice to corporate clients on fundraising, investment and management.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Zhan has been a member of Chinese Financial Association of Hong Kong (香港中國金融協會) since November 2014. Since March 2017, he has been serving as the Deputy Secretary-General of Hong Kong Chiu Chow Chamber of Commerce (香港潮州商會), a prestigious centennial chamber of commerce. He was appointed as a committee member of the Youth Committee of All-China Federation of Returned Overseas Chinese (中國僑聯青年委員會) since November 2019. Mr. Zhan obtained a bachelor's degree in management from Sun Yat-sen University in June 2010 and a master's degree in social science from The Hong Kong University of Science and Technology in November 2011. Since 2019, he has been a part-time PhD candidate in finance at the Shanghai University of Finance and Economics.

Mr. Leung Ming Shu (梁銘樞), aged 47, was appointed as an independent non-executive Director on December 20, 2022. He is primarily responsible for providing independent advice on the operations and management of our Group.

Mr. Leung has more than 23 years of corporate finance and management experience. From September 1998 to July 2001, he served as an accountant at PricewaterhouseCoopers (羅兵咸永道會計師事務所), an accounting firm, where he was mainly responsible for providing annual audit services for listed companies. From October 1999 to December 2000, he served as a senior consultant at Arthur Andersen & Co (安達信會計師事務所), where he was mainly responsible for providing consultancy service for mergers and acquisitions and business restructuring projects. From February 2003 to March 2006, he worked as a senior manager in the mergers and acquisitions department at CDC Corporation, a NASDAQ listed company, and as chief financial officer of Sino Splendid Holdings Limited (中國華泰瑞銀控股有限公司) (formerly known as Chinadotcom Incorporation (中華網科技公司)), a subsidiary of CDC Corporation and mainly engaged in the provision of software and online information whose shares are listed on GEM of the Stock Exchange (stock code: 8006), where he was mainly responsible for investor relations, leading mergers and acquisition activities and overseeing the finance operations of the company. From November 2006 to January 2008, he served as chief financial officer of Beijing Lingtu Spacecom Technology Co., Ltd (北京靈圖星訊科技有限公司), a subsidiary of Beijing Lingtu Software Co., Ltd (北京靈圖軟件技術有限公司), a company mainly engaged in the provision of digital map and global positioning system (GPS) service, where he was responsible for conducting equity fund raising, and overseeing the finance operations of that company. Mr. Leung has been the company secretary of China ITS (Holdings) Co., Ltd. (中國智能交通系統(控股)有限公司) since January 2008 and the chief financial officer of this company from January 2008 to December 2012, a company mainly engaged in the provision of intelligent transportation solutions covering expressway, railway, and urban traffic sectors whose shares are listed on the Main Board of the Stock Exchange (stock code: 1900), where he was mainly responsible for strategies, financial management and investor relations. From January 2013 to January 2017, he served as chief financial officer of Visual China Group (視覺中國文化發展股份有限公司) whose shares are listed on the Main Board of the Shenzhen Stock Exchange (stock code: 000681.SZ), a company mainly engaged in the provision of image authorization, where he was mainly responsible for mergers and acquisitions, overall financial management of the company. Since January 2018, he has been serving as a founding and managing partner at Harmony Capital (和諧資本), an investment fund with a focus on internet and consumer sectors, where he is mainly responsible for fund overall management and investment operations.

Since April 2021, he has been serving as chief financial officer and a member of strategy committee of 58 Group and managing partner of 58 Industry Fund, where he is mainly responsible for overseeing overall financial and legal functions and strategic investment and management of 58 Industry Fund.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Leung had served or has been serving as a director of the following listed companies during the three years immediately preceding the date of this document:

Period of service	Name of company	Principal business	Place of listing and stock code/ ticker symbol	Position
June 2008 to February 2021	Comtec Solar Systems Group Limited (卡姆丹克太陽能系統集團有限公司)	Provision of solar rooftop distributed generators	Main Board of the Stock Exchange (stock code: 0712)	Independent non-executive director
February 2013 to present	Cabbeen Fashion Limited (卡賓服飾有限公司)	Sale of apparel and related accessories in the PRC	Main Board of the Stock Exchange (stock code: 2030)	Independent non-executive director
March 2017 to present	Sun.King Technology Group Limited (賽晶科技集團有限公司) (formerly known as Sun.King Power Electronics Group Limited (賽晶電力電子集團有限公司))	Provision of power electron capacitor (電力電子電容器)	Main Board of the Stock Exchange (stock code: 0580)	Independent non-executive director
November 2019 to present	Renrui Human Resources Technology Holdings Limited (人瑞人才科技控股有限公司)	Provision of human resources services	Main Board of the Stock Exchange (stock code: 6919)	Independent non-executive director
February 2020 to April 2022	Glory Star New Media Group Holdings Limited (耀世星輝新文娛集團控股有限公司)	Provision of mobile entertainment	NASDAQ (ticker symbol: GSMG.US)	Independent director
July 2021 to present	GOGOX HOLDINGS LIMITED (快狗打車控股有限公司)	Provision of logistic and delivery solution services and platform services which uses technology to connect transacting user and logistic and delivery service provider in the PRC, Hong Kong, Singapore, Republic of Korea, and other Eastern and Southern Asian countries	Main Board of the Stock Exchange (stock code: 2246)	Non-executive director

DIRECTORS AND SENIOR MANAGEMENT

Period of service	Name of company	Principal business	Place of listing and stock code/ ticker symbol	Position
May 2022 to present	Infinites Technology International (Cayman) Holding Limited (多牛科技國際(開曼)集團有限公司) (formerly known as Jiu Zun Digital Interactive Entertainment Group Holdings Limited (九尊數字互娛集團控股有限公司))	Development and operation of mobile games and the distribution of digital media content in the PRC	Main Board of the Stock Exchange (stock code: 1961)	Independent non-executive director

Mr. Leung has been a Fellow Member of Association of Chartered Certified Accountants and the Fellow Member of the Hong Kong Institute of Certified Public Accountants since February 2007 and June 2010, respectively. Mr. Leung obtained a First Class Honor bachelor’s degree in accounting from the City University of Hong Kong in November 1998 and a master’s degree in accounting from The Chinese University of Hong Kong in November 2001.

Mr. Leung was also a director of Ambient Consulting Group Limited and Couponxpress Company Limited, each a company incorporated in Hong Kong with limited liability, which were dissolved in Hong Kong in November 2004 and March 2009, respectively. Mr. Leung confirmed that (i) each of the above companies was solvent upon its deregistration or dissolution; and (ii) as at the Latest Practicable Date, no claims or penalties had been made against him and he was not aware of any actual or potential claims or penalties that had been or would be made against him as a result of the deregistration or dissolution of the above companies.

Ms. Chak Hoi Kee Clara (翟凱琪), age 49, was appointed as an independent non-executive Director on December 20, 2022. She is primarily responsible for providing independent advice on the operations and management of our Group.

Ms. Chak has more than 16 years of experience in the field of corporate development, mergers and acquisitions and private equity investments. From January 2004 to August 2006, she served with her last position as Associate Director at Sun Hung Kai Properties Direct Investment Ltd., an investment company where she was responsible for private equity and related investments. From September 2006 to May 2008, she served as Associate Director at GE Corporate Financial Services Asia, a financial services division of General Electric where she was responsible for conducting due diligence, valuation and negotiation on investments including the potential investments in financial institutions in the PRC and Vietnam. From June 2008 to April 2012, she served as Vice President at JRE Partners, a joint venture focused on Greater China where she was responsible for the full investment cycle from deal sourcing, due diligence, financial projections, terms negotiation to investment documentation. From May 2012 to April 2018, she served as Head of Business Development at Maxim’s Caterers Limited, a Hong Kong based food, beverage and restaurant chain where she was responsible for the group’s M&A and business development activities. From November 2018 to October 2019, she served as Chief Financial Officer at Bayshore Pacific Hospitality Limited, a Taiwan based restaurant chain where she was mainly responsible for the full accounting, finance and fund-raising functions. Since November 2019, she has been serving as

DIRECTORS AND SENIOR MANAGEMENT

Managing Director at LionRock Capital Limited, a Hong Kong based private equity fund where she was responsible for leading direct investment activities from deal sourcing, due diligence, financial projections, terms negotiation to investment documentation.

Ms. Chak has been qualified as a Chartered Financial Analyst (CFA) by the CFA Institute since August 2002. Ms. Chak obtained a bachelor’s degree Economics and Political Science from University of Toronto in June 1995 and a master’s degree in Business Administration from The Chinese University of Hong Kong in December 2000.

Save as disclosed under the paragraphs headed “Board of Directors” in this section, none of our Directors (i) have held any other directorships in listed companies during the three years immediately preceding the date of this document; and (ii) held any other position in our Company or other members of our Group.

Our Directors confirm that, none of them or their respective close associates has any interest in a business, apart from the business of our Group, which competes or is likely to compete, directly or indirectly, with our business, which would require disclosure under Rule 8.10 of the Listing Rules.

Save as disclosed in the sections headed “History, Reorganization and Corporate Structure — Corporate and Shareholding Structure — Our Group’s Shareholding Structure after the Reorganization”, “Substantial Shareholders” and paragraph C1(a) of “Appendix IV — Statutory and General Information” in this document, as at the Latest Practicable Date, none of our Directors (i) had any interests in the Shares within the meaning of Part XV of the SFO; or (ii) had any relationship with any other Directors, senior management or substantial shareholders of our Company.

Save as disclosed under the paragraphs headed “Board of Directors” in this section, to the best of the knowledge, information and belief of our Directors having made all reasonable enquiries, there was no information relating to our Directors that is required to be disclosed pursuant to paragraphs (b) to (v) of Rule 13.51(2) of the Listing Rules or any other matters concerning any Director that needs to be brought to the attention of our Shareholders as of the Latest Practicable Date.

SENIOR MANAGEMENT

Our executive Directors and other member of our senior management are responsible for the day-to-day operations and management of our business. See “— Board of Directors — Executive Directors” for the biographical details of our executive Directors, namely Mr. Jia Xiaodong, Mr. Huang Xiang and Mr. Li Xin. Members of our senior management also include the following:

Mr. Zeng Ke (曾科), aged 38, joined our Group as the vice president of research and development department in April 2014 and he is primarily responsible for project management and engine development of our Group. Prior to joining our Group, from March 2011 to March 2014, he served as a software engineer of Microsoft Corporation, where he was primarily responsible for development of Microsoft Office 2013.

Mr. Zeng obtained a master’s degree in computer science from University of Southern California in the United States in December 2010.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Chu Kai Chi (朱啟智), aged 38, joined our Group as the chief financial officer in October 2019 and he is responsible for overseeing the financial management, capital market operations and company secretarial affairs of our Group.

Mr. Chu has over 13 years of finance experience. Prior to joining our Group, from October 2007 to February 2014, Mr. Chu served as audit manager of PricewaterhouseCoopers. From March 2014 to July 2016, Mr. Chu served as financial manager of Braiform (HK) Limited, a global hanger manufacturer and vendor, where he was primarily responsible for overseeing the internal audit and financial management. From July 2016 to May 2017, Mr. Chu served as the chief financial officer of China Payment Technology Co., Ltd. (中付支付科技有限公司), a credit card bill acquiring agency recognized by Union Pay, where he was primarily responsible for overseeing the financial management. From May 2017 to October 2019, he served as the chief financial officer of medical sector and executive vice president of Hong Kong area of Guangdong Jinmeiji Group Co., Ltd. (廣東金美濟集團有限公司), an integrated medical group company, where he was primarily responsible for overseas market expansion and operation strategy planning.

Mr. Chu has been a certified public accountant of The Hong Kong Institute of Certified Public Accountants since January 2011. Mr. Chu obtained a bachelor’s degree in accountancy and financial services from The Hong Kong Polytechnic University in Hong Kong in December 2007.

Mr. Zhao Xin (趙鑫), aged 34, joined our Group as the vice president in April 2016 and he is responsible for overseeing the business development for the domestic and overseas markets.

Prior to joining our Group, from July 2011 to November 2012, Mr. Zhao served as the product manager of Gospell Digital Technology Co., Ltd. (高斯貝爾數碼科技股份有限公司), a company mainly engaged in R&D and manufacturing of communication equipment, whose shares are listed on the Main Board of the Shenzhen Stock Exchange (stock code: 2848), where he was primarily responsible for overseeing the strategy planning of the products and overall management of mobile department. From December 2012 to November 2015, Mr. Zhao served as the marketing director of Tap4fun Co., Ltd. (成都尼畢魯科技股份有限公司), a software development company, where he was primarily responsible for the promotion and distribution of the company’s products in the global market.

Mr. Zhao obtained a bachelor’s degree in science from Texas Christian University in the United States in May 2011.

Mr. Guo Yuheng (郭宇恆), aged 35, joined our Group as the product vice president in November 2018 and he is responsible for product development and planning.

Mr. Guo has over 10 years of experience in the game industry in the PRC. Prior to joining our Group, from February 2010 to April 2011, Mr. Guo served as the game designer of Shanghai Molyou Digital Entertainment Co., Ltd. (上海摩力遊數字娛樂有限公司), a software and hardware development company, where he was primarily responsible for core play design. From October 2011 to July 2012, Mr. Guo served as the lead designer of Haihao Computer Technology (Shanghai) Co., Ltd. (海浩計算機科技(上海)有限公司), a technology development company, where he was primarily responsible for leading the design department. From August 2012 to May 2015, he served as the main designer of Shenzhen Tencent Computer System Co., Ltd. (深圳市騰訊計算機系統有限公司), a network and information technology services provider, where he was primarily responsible for game designing. From December 2016 to November 2018, he served as the general manager of Shenzhen Volcano Animation Design Co., Ltd. (深圳市火山動漫設計有限公司), an animation design company, where he was primarily responsible for animation film designing.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Guo obtained a bachelor’s degree in fine arts from University of Ottawa in Canada in December 2010, he also obtained an associate’s degree in animation design and production from Huaruan Software Engineering Institute of Guangzhou University (廣州大學華軟軟件學院) in the PRC in June 2009.

COMPANY SECRETARY

Mr. Chu Kai Chi (朱啟智), our chief financial officer, was appointed as our company secretary on June 23, 2021. For biographical details of Mr. Chu, please refer to “Senior Management — Mr. Chu Kai Chi (朱啟智)” in this section.

BOARD COMMITTEES

Our Board has established the Audit Committee, the Remuneration Committee and the Nomination Committee and delegated various responsibilities to these committees, which assist our Board in discharging its duties and overseeing particular aspects of our Group’s activities.

Audit committee

Our Group has established the Audit Committee on December 21, 2022 with written terms of reference in compliance with Rule 3.21 of the Listing Rules and code provision D.3.3 of the Corporate Governance Code (the “CG Code”) as set out in Appendix 14 to the Listing Rules. The Audit Committee consists of three members, namely, Mr. Leung Ming Shu, Ms. Chak Hoi Kee Clara and Mr. Zhan Peixun. Mr. Leung Ming Shu has been appointed as the chairman of the Audit Committee as he has the appropriate professional qualifications or related financial management expertise as required under Rule 3.10(2) of the Listing Rules.

The primary duties of the Audit Committee include, but are not limited to, (i) reviewing and supervising our financial reporting process and internal control system of our Group, risk management and internal audit; (ii) providing advice and comments to our Board; and (iii) performing other duties and responsibilities as may be assigned by our Board.

Remuneration committee

Our Group has established the Remuneration Committee on December 21, 2022 with written terms of reference in compliance with Rule 3.25 of the Listing Rules and code provision E.1.2 of the CG Code as set out in Appendix 14 to the Listing Rules. The Remuneration Committee consists of three members, namely Mr. Zhan Peixun, Mr. Leung Ming Shu and Mr. Li Xin. Mr. Zhan Peixun has been appointed as the chairman of the Remuneration Committee.

The primary duties of the Remuneration Committee include, but are not limited to (i) establishing, reviewing and providing advices to our Board on our policy and structure concerning remuneration of our Directors and senior management and on the establishment of a formal and transparent procedure for developing policies concerning such remuneration; (ii) determining the terms of the specific remuneration package of each Director and senior management member; and (iii) reviewing and approving performance-based remuneration by reference to corporate goals and objectives resolved by our Directors from time to time.

DIRECTORS AND SENIOR MANAGEMENT

Nomination committee

Our Group has established the Nomination Committee on December 21, 2022 with written terms of reference in compliance with Rule 3.27A of the Listing Rules and code provision B.3.1 of the CG Code as set out in Appendix 14 to the Listing Rules. The Nomination Committee consists of three members, namely Mr. Jia, Mr. Zhan Peixun and Ms. Chak Hoi Kee Clara. Mr. Jia has been appointed as the chairman of the Nomination Committee.

The primary duties of the Nomination Committee include, but are not limited to, (i) reviewing the structure, size and composition of our Board on a regular basis and making recommendations to our Board regarding any proposed changes to the composition of our Board; (ii) identifying, selecting or making recommendations to our Board on the selection of individuals nominated for directorship, and ensuring the diversity of our Board members; (iii) assessing the independence of our independent non-executive Directors; and (iv) making recommendations to our Board on relevant matters relating to the appointment, re-appointment and removal of our Directors and succession planning for our Directors.

CORPORATE GOVERNANCE

Our Directors recognize the importance of incorporating elements of good corporate governance in the management structures and internal control procedures of our Group so as to achieve effective accountability.

Our Company has adopted the code provisions stated in the CG Code. Our Company is committed to the view that our Board should include a balanced composition of executive Directors and independent non-executive Directors so that there is a strong independent element on our Board, which can effectively exercise independent judgment.

According to code provision C.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Jia is currently the chairman of our Board and the chief executive officer of our Group. Taking into account Mr. Jia’s extensive experience in the online game industry and in view of Mr. Jia’s role in the overall management of our Group since our Group’s founding, our Board believes that it is in the interest of our Group for Mr. Jia to take up both roles for effective management and operations. Therefore, our Directors consider that the deviation from such code provision is appropriate. Notwithstanding such deviation, our Directors are of the view that our Board is able to function efficiently and perform its responsibilities with all key and appropriate issues discussed in a timely manner. In addition, as all major decisions will be made in consultation with the members of our Board and the relevant Board committees, and there are three independent non-executive Directors on our Board who can provide independent advice on the operations and management of our Group, our Board takes the view that there is adequate safeguard in place to ensure a sufficient balance of powers within our Board. Our Board will also review the structure and composition of our Board and senior management team from time to time in light of our prevailing circumstances to maintain a high standard of corporate governance practices of our Company.

Save for the deviation from code provision C.2.1 of the CG Code as disclosed above, it is expected that our Group will be able to comply with the code provisions in the CG Code upon the [REDACTED].

DIRECTORS AND SENIOR MANAGEMENT

BOARD DIVERSITY POLICY

Our Board has adopted a board diversity policy which sets out the objective and approach to achieve diversity of our Board. Our Group recognizes the benefits of having a diversified Board and sees increasing diversity at the Board level as an essential element in supporting the attainment of our Group’s strategic objectives and sustainable development. Our Group seeks to achieve diversity of our Board through the consideration of a number of factors, including but not limited to professional experience, skills, knowledge, education background, gender, age and ethnicity. Our Directors have a balanced mix of skills and experiences, including overall management, brand improvement, business development, investment, finance auditing and accounting experiences. We have three independent non-executive Directors who have different industry backgrounds, including accounting, finance and investment. Furthermore, our Directors are of a wide range of age, from 35 years old to 49 years old.

After [REDACTED], the Nomination Committee will review the board diversity policy and its implementation from time to time to ensure its implementation and monitor its continued effectiveness, and the same will be disclosed in our corporate governance report in accordance with the Listing Rules after [REDACTED], including any measurable objectives set for implementing the board diversity policy and the progress on achieving these objectives on an annual basis. Ms. Chak Hoi Kee Clara, being our independent non-executive Director who has practical experience in her fields, could contribute to gender diversity of our Board and bringing valuable views from a female perspective to our Board in managing our Company.

The effective implementation of the board diversity policy will depend, to a certain extent, on our Shareholders’ independent judgment on the suitability of individual candidates and their views on the scale of gender diversity of our Board. To ensure gender diversity of our Board after [REDACTED], the Nomination Committee will review the Board composition from time to time and identify suitable Director candidates of both genders to our Board for consideration where appropriate.

COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

Our Directors and members of our senior management receive compensation from our Company in the form of fees, salaries, bonuses and other benefits in kind such as contributions to pension plans. The aggregate remuneration (including fees, salaries, contributions to pension schemes, bonus, share-based payments, retirement benefits scheme, allowance and other benefits in kind) paid to our Directors for the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022 were approximately RMB2.7 million, RMB2.8 million, RMB2.7 million and RMB1.3 million, respectively. Please see note 9(b) to the consolidated financial statements of our Group in Appendix I to this document for further details. Other than that, no other amounts have been paid or are payable by any member of our Group to our Directors during the Track Record Period.

Please refer to note 9(a) to the consolidated financial statements of our Group in Appendix I to this document for details on the emoluments of the five highest paid individuals in our Group during the Track Record Period.

No remuneration was paid by us to our Directors or the five highest paid individuals as an inducement to join or upon joining us or as a compensation for loss of office in respect of the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022. Further, none of our Directors had waived or agreed to waive any remuneration during the same periods.

DIRECTORS AND SENIOR MANAGEMENT

Under the arrangement currently in force, the aggregate remuneration (including fees, salaries, contributions to pension schemes, bonus, share-based payments, retirement benefits scheme, allowances and other benefits in kind) of our Directors for the year ending December 31, 2022 is estimated to be no more than RMB3.5 million. Our Board will review and determine the remuneration and compensation packages of our Directors and senior management and, following the [REDACTED], will receive recommendation from the Remuneration Committee which will take into account salaries paid by comparable companies, time commitment and responsibilities of our Directors and performance of our Group.

COMPLIANCE ADVISER

Our Company has appointed UOB Kay Hian (Hong Kong) Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, our compliance adviser will advise our Company in the following circumstances:

- before the publication of any regulatory announcement, circular or financial report;
- where a transaction, which might be a notifiable or connected transaction, is contemplated, including shares issues and share repurchases;
- where our Company proposes to use the [REDACTED] of the [REDACTED] in a manner different from that detailed in this document or where our business activities, developments or results deviate from any forecast, estimate or other information in this document; and
- where the Stock Exchange makes an inquiry of our Company under Rule 13.10 of the Listing Rules.

The term of the appointment of our compliance adviser shall commence on the [REDACTED] and end on the date on which our Company distribute our annual report in respect of our financial results for the first full financial year commencing after the [REDACTED].

SUBSTANTIAL SHAREHOLDERS

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, the following persons will, immediately prior to and following the completion of the [REDACTED] and the [REDACTED] (assuming full conversion of the Pre-[REDACTED] Convertible Bonds and without taking into account any Shares which may be issued pursuant to the exercise of any option which may be granted under the Share Option Scheme), have interests or short positions in our Shares or underlying Shares, which would be required to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly interested in 10% or more of the issued voting shares of any member of our Group.

(a) Interests in the Shares of our Company

Name of Shareholder	Nature of interest	Shares held as of the Latest Practicable Date ⁽¹⁾		Shares held immediately following the completion of the [REDACTED] and the [REDACTED]	
		Number	Approximate Percentage	Number	Approximate Percentage
Mr. Jia ⁽²⁾	Interest in controlled corporation	270,644 Shares (L)	27.56%	[REDACTED]	[REDACTED]
Great Shine ⁽²⁾	Beneficial owner	270,644 Shares (L)	27.56%	[REDACTED]	[REDACTED]
Ms. Yuan Qingyun ⁽³⁾	Interest of spouse	270,644 Shares (L)	27.56%	[REDACTED]	[REDACTED]
Mr. Huang ⁽⁴⁾	Interest in controlled corporation	192,264 Shares (L)	19.23%	[REDACTED]	[REDACTED]
High Triumph ⁽⁴⁾	Beneficial owner	192,264 Shares (L)	19.23%	[REDACTED]	[REDACTED]
Ms. Zou Wenjing ⁽⁵⁾	Interest of spouse	192,264 Shares (L)	19.23%	[REDACTED]	[REDACTED]
Crystal Pleasant ⁽⁶⁾	Beneficial owner	70,755 Shares (L)	7.08%	[REDACTED]	[REDACTED]
Suzhou Fudebo ⁽⁶⁾	Interest in controlled corporation	70,755 Shares (L)	7.08%	[REDACTED]	[REDACTED]
Mr. Song Yubo ⁽⁶⁾	Interest in controlled corporation	70,755 Shares (L)	7.08%	[REDACTED]	[REDACTED]
Mr. Lu Yaoping ⁽⁶⁾	Interest in controlled corporation	70,755 Shares (L)	7.08%	[REDACTED]	[REDACTED]
Mr. Gong Peigen ⁽⁶⁾	Interest in controlled corporation	70,755 Shares (L)	7.08%	[REDACTED]	[REDACTED]
Easy Flourish ⁽⁷⁾	Beneficial owner	70,755 Shares (L)	7.08%	[REDACTED]	[REDACTED]
Zhuiyuan Caifu ⁽⁷⁾	Interest in controlled corporation	70,755 Shares (L)	7.08%	[REDACTED]	[REDACTED]
Zhuiyuan Venture ⁽⁷⁾	Interest in controlled corporation	70,755 Shares (L)	7.08%	[REDACTED]	[REDACTED]
Zhongguancun Venture ⁽⁷⁾	Interest in controlled corporation	70,755 Shares (L)	7.08%	[REDACTED]	[REDACTED]
Mr. Liu Chengmin ⁽⁷⁾⁽⁸⁾	Interest in controlled corporation	89,623 Shares (L)	8.96%	[REDACTED]	[REDACTED]

SUBSTANTIAL SHAREHOLDERS

Name of Shareholder	Nature of interest	Shares held as of the Latest Practicable Date ⁽¹⁾		Shares held immediately following the completion of the [REDACTED] and the [REDACTED]	
		Number	Approximate Percentage	Number	Approximate Percentage
Garena Ventures ⁽⁹⁾	Beneficial owner	—	—	[REDACTED]	[REDACTED]
Sea Limited ⁽⁹⁾	Interest in controlled corporation	—	—	[REDACTED]	[REDACTED]

Notes:

- (1) The letter “L” denotes a long position in our Shares.
- (2) Great Shine is wholly-owned by Mr. Jia. By virtue of the SFO, Mr. Jia is deemed to be interested in the Shares in which Great Shine is interested.
- (3) Ms. Yuan Qingyun is the spouse of Mr. Jia. By virtue of the SFO, Ms. Yuan Qingyun is deemed to be interested in the Shares in which Mr. Jia is interested.
- (4) High Triumph is wholly-owned by Mr. Huang. By virtue of the SFO, Mr. Huang is deemed to be interested in the Shares in which High Triumph is interested.
- (5) Ms. Zou Wenjing is the spouse of Mr. Huang. By virtue of the SFO, Ms. Zou Wenjing is deemed to be interested in the Shares in which Mr. Huang is interested.
- (6) Crystal Pleasant Holding Limited (“**Crystal Pleasant**”) is wholly-owned by Suzhou Fudebo, one of our existing Pre-[REDACTED] Investors. Mr. Song Yubo (宋宇博) is the general partner of Suzhou Fudebo with 2.00% partnership interest in Suzhou Fudebo, and each of Mr. Lu Yaoping (陸耀平) and Mr. Gong Peigen (龔培根) is a limited partner of Suzhou Fudebo with 49.00% and 49.00% partnership interest in Suzhou Fudebo, respectively. Please refer to the section headed “History, Reorganization and Corporate Structure — Pre-[REDACTED] Investments — Background information about the existing Onshore Pre-[REDACTED] Investors” in this document for further details on Suzhou Fudebo. By virtue of the SFO, each of Mr. Song Yubo, Mr. Lu Yaoping, Mr. Gong Peigen and Suzhou Fudebo is deemed to be interested in the Shares in which Crystal Pleasant is interested.
- (7) Easy Flourish Holding Limited (“**Easy Flourish**”) is wholly-owned by Zhuiyuan Caifu, one of our existing Pre-[REDACTED] Investors. 北京追遠創業投資有限公司 (for identification only, Beijing Zhuiyuan Venture Investment Co., Ltd.) (“**Zhuiyuan Venture**”) is the general partner of Zhuiyuan Caifu and is controlled by Mr. Liu Chengmin (劉成敏). 北京中關村創業投資發展有限公司 (for identification only, Beijing Zhongguancun Venture Investment Development Co., Ltd.) (“**Zhongguancun Venture**”) is a limited partner of Zhuiyuan Caifu with approximately 34.68% partnership interest in Zhuiyuan Caifu and is ultimately controlled by 北京市人民政府國有資產監督管理委員會 (State-owned Assets Supervision and Administration Commission of People’s Government of Beijing Municipality). Please refer to the section headed “History, Reorganization and Corporate Structure — Pre-[REDACTED] Investments — Background information about the existing Onshore Pre-[REDACTED] Investors” in this document for further details on Zhuiyuan Caifu. By virtue of the SFO, each of Zhongguancun Venture, Mr. Liu Chengmin, Zhuiyuan Venture and Zhuiyuan Caifu is deemed to be interested in the Shares in which Easy Flourish is interested.

SUBSTANTIAL SHAREHOLDERS

- (8) Mr. Liu Chengmin is the general partner of Longyuan Yunteng (one of the existing Onshore Pre-[REDACTED] Investors), which holds 100% shareholding interest in Perfect Ranger Holding Limited (“**Perfect Ranger**”). Perfect Ranger (i) was interested in 18,868 Shares as at the Latest Practicable Date, and (ii) will be interested in [REDACTED] Shares immediately following completion of the [REDACTED] and the [REDACTED]. By virtue of the SFO, each of Mr. Liu Chengmin and Longyuan Yunteng is deemed to be interested in the Shares in which Perfect Ranger is interested.
- (9) Based on full conversion of the Pre-[REDACTED] Convertible Bonds held by Garena Ventures in the principal amount of HK\$[REDACTED] at the conversion price of HK\$[REDACTED] per Share into [REDACTED] Shares. Please refer to the section headed “History, Reorganization and Corporate Structure — Pre-[REDACTED] Investments — The Pre-[REDACTED] CB Subscription” in this document for further details on the Pre-[REDACTED] Convertible Bonds. Garena Ventures is wholly-owned by Sea Limited. By virtue of the SFO, Sea Limited is deemed to be interested in the Shares in which Garena Ventures is interested.

(b) Interests in the equity of other members of our Group

Name of shareholder	Nature of interest	Name of Group entity	Percentage shareholding interest
Mr. Jia ⁽¹⁾	Beneficial owner	Wangchen Technology ⁽³⁾	23.53%
	Interest of controlled corporations	Wangchen Technology ⁽³⁾	15.12%
Mr. Huang	Beneficial owner	Wangchen Technology ⁽³⁾	17.40%
Mr. Wu Qing ⁽²⁾	Beneficial owner	Yingnuo Ruier	99%
Ms. Xu Weiwei	Beneficial owner	Chuangzhen Shijie	10%

Notes:

- (1) Mr. Jia is a general partner of Wangbo Nawu, Wangsheng Xiluo, Chengwang Investment and Wangnuo Kanpu. By virtue of the SFO, Mr. Jia is deemed to be interested in the equity interest in Wangchen Technology held by Wangbo Nawu, Wangsheng Xiluo, Chengwang Investment and Wangnuo Kanpu.
- (2) Mr. Wu Qing is interested in 99% partnership interest in Yingnuo Ruier as limited partner.
- (3) The entire equity interest in Wangchen Technology is pledged by the Registered Shareholders (including, among others, Mr. Jia, Mr. Huang, Wangbo Nawu, Wangsheng Xiluo, Chengwang Investment and Wangnuo Kanpu) in favour of the WFOE as part of the Contractual Arrangements. Please refer to “Contractual Arrangements — Our Contractual Arrangements — Equity Pledge Agreement” of this document for details.

Save as disclosed in this section and as mentioned in the section headed “Appendix IV — Statutory and General Information — C. Further Information about our Directors and Substantial Shareholders” of this document, our Directors are not aware of any person who will, immediately following the completion of the [REDACTED] and the [REDACTED] (without taking into account any Shares which may be issued pursuant to the exercise of any option which may be granted under the Share Option Scheme), have beneficial interests or short positions in any Shares or underlying Shares, which would be required to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly interested in 10% or more of the issued voting shares of any member of our Group. Our Directors are not aware of any arrangement which may at a subsequent date result in a change of control of our Company.

THIS DOCUMENT IS IN DRAFT FORM, INCOMPLETE AND SUBJECT TO CHANGE AND THAT THE INFORMATION MUST BE READ IN CONJUNCTION WITH THE SECTION HEADED “WARNING” ON THE COVER OF THIS DOCUMENT.

SHARE CAPITAL

The following is a description of the authorized and issued share capital of our Company in issue and to be issued as fully paid or credited as fully paid immediately before and following the completion of the [REDACTED] and the [REDACTED] (subject to the assumptions below):

		Nominal Value (HK\$)
Authorised share capital:		
10,000,000,000	Shares of par value of HK\$0.01 each	100,000,000.00
Issued and to be issued, fully paid or credited as fully paid:		
1,000,000	Share in issue as of the date of this document	10,000.00
[REDACTED]	Shares to be issued pursuant to the [REDACTED]	[REDACTED]
[REDACTED]	Shares to be issued upon the full conversion of the Pre-[REDACTED] Convertible Bonds	[REDACTED]
<u>[REDACTED]</u>	Shares to be issued under the [REDACTED]	<u>[REDACTED]</u>
<u>[REDACTED]</u>	Total	<u>[REDACTED]</u>

ASSUMPTIONS

The above table assumes that the [REDACTED] becomes unconditional, the Pre-[REDACTED] Convertible Bonds are fully converted into Shares, and the issue of Shares pursuant to the [REDACTED] and [REDACTED] are made. It takes no account of any Shares which may be allotted and issued pursuant to the exercise of the options which may be granted under the Share Option Scheme or any Shares which may be issued or repurchased by us pursuant to the general mandates granted to our Directors to issue or buy back Shares as described below.

RANKINGS

The [REDACTED] will be ordinary shares in the share capital of our Company and will carry the same rights in all respects with all Shares in issue or to be issued as mentioned in this document and, in particular, will rank in full for all dividends or other distributions declared, made or paid on the Shares in respect of a record date which falls after the date of this document save for the entitlement under the [REDACTED].

SHARE CAPITAL

GENERAL MANDATE TO ALLOT AND ISSUE NEW SHARES

Subject to the [REDACTED] becoming unconditional, our Directors have been granted a general mandate to allot, issue and deal with Shares in the share capital of our Company with a total number of issued shares of not more than the sum of:

- (i) 20% of the total number of Shares in issue immediately following the completion of the [REDACTED] and the [REDACTED] (including Shares which may be allotted and issued upon conversion of the Pre-[REDACTED] Convertible Bonds immediately prior to the [REDACTED], but excluding Shares which may be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme); and
- (ii) the total number of Shares bought back by our Company (if any) pursuant to the general mandate to buy back Shares granted to our Directors referred to below.

Our Directors may, in addition to the Shares which they are authorized to issue under this general mandate, allot, issue or deal with Shares under a rights issue, scrip dividend scheme or similar arrangement, or on the exercise of any option which may be granted under the Share Option Scheme.

This general mandate will remain in effect until the earliest of:

- (i) the conclusion of the next annual general meeting of our Company; or
- (ii) the expiry of the period within which the next annual general meeting of our Company is required by the Articles or any applicable laws to be held; or
- (iii) when varied or revoked by an ordinary resolution of our Shareholders in general meeting.

Further information on this general mandate is set out in the section headed “Statutory and General Information — A. Further Information about our Group — 3. Resolutions in writing of our Shareholders passed on December 21, 2022” in Appendix IV to this document.

GENERAL MANDATE TO BUY BACK SHARES

Subject to the [REDACTED] becoming unconditional, our Directors have been granted a general mandate to exercise all the powers of our Company to buy back Shares with a total number of Shares of not more than 10% of the total number of Shares in issue immediately following the completion of the [REDACTED] and the [REDACTED] (including Shares which may be allotted and issued upon conversion of the Pre-[REDACTED] Convertible Bonds immediately prior to the [REDACTED], but excluding Shares which may be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme).

This mandate only relates to buybacks made on the Stock Exchange or any other stock exchange on which the Shares are [REDACTED] (and which is recognized by the SFC and the Stock Exchange for this purpose), and which are in accordance with the Listing Rules. A summary of the relevant Listing Rules is set out in the section headed “Statutory and General Information — A. Further Information about our Group — 6. Buybacks of our own Shares” in Appendix IV to this document.

SHARE CAPITAL

This general mandate to buy back Shares will remain in effect until the earliest of:

- (i) the conclusion of the next annual general meeting of our Company; or
- (ii) the expiry of the period within which the next annual general meeting of our Company is required by the Articles or any applicable laws to be held; or
- (iii) when varied or revoked by an ordinary resolution of the Shareholders in general meeting.

Further information on this general mandate is set out in the section headed “Statutory and General Information — A. Further Information about our Group — 3. Resolutions in writing of our Shareholders passed on December 21, 2022” in Appendix IV to this document.

SHARE OPTION SCHEME

Pursuant to the written resolutions of the Shareholders dated December 21, 2022, we conditionally adopted the Share Option Scheme. A summary of the principal terms of the Share Option Scheme is set out in the section headed “Statutory and General Information — D. Other Information — 1. Share Option Scheme” in Appendix IV to this document.

CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED

Our Company has only one class of shares, namely ordinary shares, each of which carries the same rights as the other shares.

As a matter of the Companies Act, an exempted company is not required by law to hold any general meeting or class meeting. The holding of general meeting or class meeting is prescribed under the articles of association of a company. Accordingly, our Company will hold general meetings as prescribed under the Articles, a summary of which is set out in the section headed “Summary of Our Constitution and Cayman Companies Act” in Appendix III to this document.

FINANCIAL INFORMATION

You should read the following discussion and analysis with our consolidated financial information, including the notes thereto, included in the Accountant’s Report in Appendix I to this document. Our consolidated financial information has been prepared in accordance with HKFRS, which may differ in material aspects from generally accepted accounting principles in other jurisdictions. You should read the entirety of the Accountant’s Report included in Appendix I to this document and not rely merely on the information contained in this section.

The following discussion and analysis contains forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on our assumptions and analysis in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, whether actual outcomes and developments will meet our expectations and predictions depends on a number of risks and uncertainties. In evaluating our business, you should carefully consider the information provided in this document, including the sections headed “Risk Factors” and “Business”.

For the purpose of this section, unless the context otherwise requires, references to 2019, 2020 and 2021 refer to our financial years ended December 31 of such years. Unless the context otherwise requires, financial information described in this section is on a consolidated basis.

OVERVIEW

We are a mobile game developer, publisher and operator in the PRC with a focus on mobile sports simulation games for global markets. In 2021, we ranked second in the mobile sports simulation game market in the PRC in terms of revenue from mobile sports simulation game, representing a market share of approximately 12.4% and ranked second in the mobile sports game market in the PRC in terms of revenue from mobile sports game with a market share of approximately 7.9%.

Over the years, we developed and operated primarily mobile sports games. As of the Latest Practicable Date, we developed and operated four mobile sports games, among which *Football Master* (足球大師), *NBA Basketball Master* (NBA籃球大師) and *Football Champion* (最佳11人 — 冠軍球會) formed the backbone of our business and contributed the majority of our revenue during the Track Record Period. We have cultivated our user base from *Football Master* (足球大師), our first flagship mobile sports management simulation game launched in July 2014. Leveraging our success of *Football Master* (足球大師), we developed and launched our second mobile sports management simulation game, *NBA Basketball Master* (NBA籃球大師) in September 2017. Our *Football Champion* (最佳11人 — 冠軍球會) was launched in April 2020 with enhanced realistic graphics to feature more authentic 3D simulation on professional player’s motion. In July 2022, we launched our new mobile sports action simulation game, *Total Football* (最佳球會) in the PRC, New Zealand and Australia. *Total Football* (最佳球會) is our first self-developed mobile football action simulation game which incorporates the state of art 3D gameplay scenes and more advanced AI technology to enhance users’ sensational experience in the virtual sports matches by the application of manual steering skills. By virtue of the seamless gameplay with sophisticated action animation, *Total Football* (最佳球會) has been featured and demonstrated on the display of the latest Apple iPad model as of the Latest Practicable Date.

FINANCIAL INFORMATION

Leveraging the success of our four signature mobile sports games, we are committed to making continuous effort in capturing the market opportunities in the mobile sports game industry in the PRC and overseas markets to expand our mobile sports game portfolio. As of the Latest Practicable Date, we had a pipeline of three new mobile sports games, which are expected to be launched in December 2022 or January 2023, by the second half of 2023 and by the second half of 2024, respectively. To create attractive game content, we formed valuable and strategic relationships with IP right holders, including renowned sports league, sports associations and sports clubs, including FIFPro, NBA, NBPA, Juventus F.C., Manchester City F.C., F.C. Bayern Munich, Paris Saint-Germain F.C., Borussia Dortmund and F.C. Barcelona. Our game development and operational capabilities have secured us the recognition by these sports league, sports associations and sports clubs, who grant us IP right licenses to sustain the long-term popularity of our games.

During the Track Record Period, the majority of our revenue was derived from our self-developed mobile sports games launched in both the PRC and overseas markets. All of our games are introduced on a free-to-play model and we generate our revenue from users by monetizing in-game purchases of virtual items. As a result of our efforts in capturing the market opportunities in the mobile sports game industry and driving user engagement, we have experienced a stable growth during the three years ended December 31, 2021, generating a revenue of approximately RMB378.6 million, RMB404.7 million and RMB459.9 million, respectively, representing a CAGR of approximately 10.2% during 2019 to 2021. For the six months ended June 30, 2022, we recorded a revenue of RMB294.8 million, representing a significant increase of approximately RMB113.8 million, or 62.9%, from RMB181.0 million for the six months ended June 30, 2021. During the Track Record Period, our net profit was approximately RMB45.7 million, RMB40.7 million, RMB39.4 million and RMB20.3 million, respectively. Excluding the [REDACTED] expenses and the net fair value changes on the Pre-[REDACTED] Convertible Bonds, our adjusted net profit (non-HKFRS measure) during the same periods would be approximately RMB49.9 million, RMB45.5 million, RMB56.7 million and RMB27.3 million, respectively.

MAJOR FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations have been, and are expected to continue to be, affected by a number of factors, many of which are outside of our control, including the following:

Our ability to develop, publish and operate engaging and popular mobile sports games

Substantially most of our revenue is generated from our self-developed games. Our ability to successfully leverage our expertise and development capability to enlarge our game portfolio in the PRC and overseas markets with attractive gamification features will be critical to retaining and expanding our user base, and maintaining our revenue and profit growth.

During the Track Record Period, mobile sports games accounted for approximately 99.8%, 99.8%, 100.0% and 100.0% of our revenue, respectively and we intend to focus on mobile sports games for the foreseeable future. According to the Frost & Sullivan Report, the market size of mobile sports games in the PRC increased from RMB1.6 billion in 2016 to RMB5.8 billion in 2021, registering a CAGR of approximately 29.4%. The market size is expected to grow at a CAGR of 12.4% from 2021 to 2026 to RMB10.4 billion. As a result, our ability to develop and publish attractive games depends in part, on our ability to keep abreast of the evolving trend of popularity and latest development in the sports markets, and our prompt responsiveness to enhance the gameplay experiences of our existing games and develop new games to capture new opportunities in the PRC and overseas markets.

FINANCIAL INFORMATION

Our ability to monetize user experience

Our results of operations are dependent upon our ability to convert our game users into paying users. All of our existing games during the Track Record Period were offered in a free-to-play model. We believe this freemium model is crucial to inducing a larger population of users to try out our games at their early-growth stage. Once the users become familiar with and engaged in our games, our monetization tactics will kick in where we offer a wide variety of in-game virtual items, the application of which will enhance their in-game experiences with the boosting, acquiring or upgrading of athletes, coaches and/or teams, that attract them to become paying users. For such reasons, our business growth and financial performance rely on our ability to develop and operate commercially successful games which attract a high number of users who are willing to pay for such in-game virtual items. To do so, we would rely on our research and development capabilities to optimize user experience for our users and also our market strategies to effectively attract our users to continuously purchase our in-game virtual items. We would also rely on our ability to secure IP right licenses from renowned sports leagues, sports associations and sports clubs in order to provide authentic user experience in our mobile sports games. The following table sets forth the number of average MPUs and ARPPU for our entire game portfolio during the periods indicated:

		For the year ended December 31,		For the six months ended June 30,	
	2019	2020	2021	2021	2022
		<i>(in units for average MPUs and in RMB for ARPPU)</i>			
Average MPUs	67,055	73,059	82,833	65,574	98,755
ARPPU	464	475	485	459	525

According to the Frost & Sullivan Report, after a game is launched, over time during its stable and mature stage, it is typical to have a lower average DAUs, average MAUs and average MPUs while having a relatively higher ARPPU when compared with its early growth stage due to the greater spending propensity of the keener players and the retention loss of less keen players. Please refer to the section headed “Business — Our users” to this document for data of cumulative registered players, average DAUs, average MAUs, average MPUs and ARPPU of our games and detailed analysis of their fluctuations.

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The following tables set forth a sensitivity analysis illustrating the impact of hypothetical fluctuations of ARPPU on our profit, as a result of the corresponding change on our revenue, commission fee to the Platforms, license fees and revenue sharing to third party publishers, assuming the average MPUs remains constant and no other accounting impact during the Track Record Period:

	For the year ended December 31,			For the six months ended
	2019	2020	2021	June 30,
	(RMB'000)	(RMB'000)	(RMB'000)	2022
Change in profit for the year/ period				(RMB'000)
Increase/decrease by 10%	18,081	19,157	23,833	16,043
Increase/decrease by 20%	36,162	38,315	47,666	32,086
Increase/decrease by 30%	54,243	57,472	71,500	48,128

Our future growth will largely depend on whether we are able to retain our existing active paying users and attract new paying users by devising more competitive strategies to enhance our game monetization. We will continue to stimulate users’ interests and drive in-game purchases by improving the quality of our games, introducing new game features and services and in-game virtual items and launching additional in-game promotions and other activities.

Our ability to maintain our publishing network on favorable terms

In terms of game publishing, we mainly rely on self publishing. We self-publish our games by (i) collaborating directly with third-party distribution platforms, such as application marketplaces to allows users to download our games; (ii) providing QR codes on our official website for visitors to download and install our games; and (iii) commissioning advertising and marketing agencies to publicize our games with links which would be directed to the official website of our games or various third-party distribution platforms. To a lesser extent, we also partner with third-party publishers to publish and promote our games. For details of the specific arrangements, please refer to the section headed “Business — Game Publishing” to this document. The growth of our user base depends on our ability to make our games available for download to users in the PRC and abroad. Substantially all our games were published on third-party distribution platforms such as Huawei, Xiaomi, OPPO, Vivo, Tencent Appstore, TapTap, Google Play and the Apple AppStore.

For revenue generated from our self-developed games on third-party distribution platforms, the third-party distribution platforms and third-party payment vendors (the “**Platforms**”) collect payments directly from the users and the Platforms are entitled to commission fees which are withheld and deducted (together with any applicable administrative charges (for example, local indirect tax and foreign exchange conversion charges, etc.)) from the gross proceeds collected from the users, with the net amounts remitted to us. For revenue generated from games published by third-party publishers through their own designated platforms, including web-based version and through mobile application marketplaces, proceeds from the sale of in-game tokens and other virtual items are collected by the third-party publishers or its designated distribution and payment platforms and revenue is shared between us and such third-party publishers at a pre-determined rate. Commission fees to third-party distribution platforms and revenue sharing to third-party publishers constituted 76.0%, 73.7%, 72.9% and 71.6% of our total cost of revenue during the Track Record

FINANCIAL INFORMATION

Period. Our current and future game distribution arrangements with our third-party distribution platforms and publishers could have a significant impact on our operating results. Our ability to maintain and expand our publishing network on favorable terms is critical to our continued success.

The following tables set forth a sensitivity analysis illustrating the impact of hypothetical fluctuations of our commission fees paid to third-party distribution platforms and revenue sharing with third-party publishers on our profit during the Track Record Period:

	For the year ended December 31,			For the six months ended
	2019	2020	2021	June 30,
	(RMB'000)	(RMB'000)	(RMB'000)	2022
				(RMB'000)
Change in profit for the year				
Increase/decrease by 10%	15,770	16,546	17,378	10,453
Increase/decrease by 20%	31,541	33,092	34,756	20,907
Increase/decrease by 30%	47,311	49,638	52,134	31,360

General conditions affecting the online game and mobile sports game industry

We are primarily focused on the online game industry, in particular the mobile sports game market. Therefore, our results of operations are affected by general conditions affecting China’s and overseas online game and mobile sports game industry, including the overall economic condition, the local penetration of mobile phones and mobile internet infrastructure, the regulatory environment, the demand for online games, and user preference. According to the Frost & Sullivan Report, the size of the online game market in the PRC grew at a CAGR of 15.8% in the last five years, from RMB151.0 billion in 2016 to RMB315.1 billion in 2021 and is estimated to further increase to RMB436.1 billion in 2026. The market expansion was mainly attributable to the ubiquitous mobile phones and development of technological advancement in hardware and display, processing, storage, interfaces, network bandwidth and operating system functionality which, in particular, contribute to the growing market of mobile game in the PRC at a CAGR of 22.1% from RMB97.2 billion in 2016 (64.4% of the entire online game market at the time) to RMB263.9 billion in 2021 (83.8% of the entire online game market at the time), and is expected to continue to grow at a CAGR of 7.9% to reach RMB385.4 billion in 2026 due to the continuous technology upgrading and deployment of 5G internet in the future. The global market size of online games also registered stable growth during the past five years, increasing from US\$77.0 billion in 2016 to US\$154.1 billion in 2021 at a CAGR of 14.9%. With the continuously improving online game experiences brought by the cutting edge technology and upgrading devices such as VR and 3D wiggle stereoscopy, the global market size of online games is anticipated to maintain an upward trend to reach US\$223.0 billion by 2026. In particular, sports game is one of the genre of online games, which takes approximately 4% to 6% of the total market size in the global online game market. The market size of mobile sports simulation games and mobile battle sports games increased rapidly at a CAGR of 35.8% and 21.3% from 2016 to 2021, respectively, in the PRC. For further details, see the section headed “Industry Overview” in this document. Changes in the conditions affecting China’s and overseas online game industry would have a significant impact on our business and prospects. For details, please also see the section headed “Risk Factors — We may not be able to anticipate or successfully adapt to new trends and may face increasingly intense competition in the mobile game industry which makes it difficult for us to evaluate our business and prospects” in this document.

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Advertising and marketing of our games

To attract new game players and enhance our brand recognition, we aim to devise effective marketing strategies to promote our games. Our main advertising efforts include promoting our games through online advertisements on various social media platforms. We also operate our social media accounts on a regular basis to actively communicate with all of our users and launch promotional activities, such as virtual item giveaways to enhance user engagement. Although we do engage third-party advertising agencies for advertising services, such services mainly involve publicising our advertisements on various platforms, the advertising content of which have been created by our in-house content creation team together with our sales and marketing team. The advertising fees paid to advertising and marketing agencies would be referenced to the amount of advertisement posts or the number of user actions, such as cost per day, cost per click, cost per million impressions, cost per try and cost per action.

Our advertising and marketing expenses of a game will also fluctuate along with the progression of its lifecycle. Typically, at the early growth stage, the advertising and marketing expenses of a game tend to increase rapidly and remain at a relative high level as a result of the comprehensive marketing and promotion campaigns at the beginning stage in order to increase the exposure of the game and to attract a large base of users within a relatively short period of time. At the stable and mature stage, the overall advertising and marketing expenses of a game tend to be stable and lower than the early growth stage as we maintain regular advertising and marketing efforts for a game. Also, advertising efforts at this stage would be more focused on increasing monetization of our loyal paying users.

For the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022, we incurred advertising and marketing expenses of approximately RMB54.5 million, RMB56.3 million, RMB76.5 million and RMB67.7 million, accounting for approximately 14.4%, 13.9%, 16.6% and 23.0% of our total revenue, and approximately 90.4%, 89.5%, 89.3% and 92.3%, of our total selling and marketing expenses respectively.

The following tables set forth a sensitivity analysis illustrating the impact of hypothetical fluctuations of our advertising and marketing expenses on our profit during the Track Record Period:

	For the year ended December 31,			For the six months ended June 30,
	2019	2020	2021	2022
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
Change in profit for the year				
Increase/decrease by 10%	5,447	5,631	7,645	6,774
Increase/decrease by 20%	10,894	11,262	15,290	13,548
Increase/decrease by 30%	16,340	16,893	22,935	20,323

Therefore, any significant change in our advertising and marketing expenses would have a significant impact on our results of operations.

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Research and development

Research and development is considered a vital part of our business growth due to the nature of our business model as the majority of our games are self-developed games. We have therefore committed significant resources in building up our in-house game development, research and development team as well as our independent capabilities to develop engaging and popular mobile games. During the Track Record Period, we incurred research and development expenses of approximately RMB40.1 million, RMB45.2 million, RMB62.7 million and RMB37.5 million, accounting for approximately 10.6%, 11.2%, 13.6% and 12.7% of our total revenue, respectively. As of the Latest Practicable Date, we had a total of 227 research and development staff, accounting for approximately 61.9% of our total number of employees. As we expect to continue to strengthen our research and development efforts in order to launch new games with more sophisticated game experience and to strive for more future research and development breakthroughs, we intend to hire more employees dedicated to research and development, which would directly impact our research and development expenses since employees benefits and salaries constituted the majority of such expenses. Accordingly, any significant changes in the composition and compensation of our game development, research and development team and the research and development expenses would have a significant impact on our results of operations.

Foreign exchange

We are exposed to foreign exchange rate risk arising from our commercial transactions and recognized assets and liabilities denominating in a currency other than RMB, which is the functional currency of the major operating companies within our Group. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the profit or loss on a net basis.

If US\$ had strengthened/weakened by 5% against RMB with all other variables held constant, the post-tax income would have been approximately RMB4.2 million, RMB2.4 million, RMB1.6 million and RMB1.7 million higher/lower, for the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022, respectively, as a result of net foreign exchange gains/losses on translation of net monetary assets denominated in US\$.

If EUR had strengthened/weakened by 5% against RMB with all other variables held constant, the post-tax income would have been approximately RMB0.6 million, RMB0.7 million, RMB0.8 million and RMB0.9 million lower/higher for the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022, respectively, as a result of net foreign exchange losses/gains on translation of net monetary liabilities denominated in EUR.

If HK\$ had strengthened/weakened by 5% against RMB with all other variables held constant, the post-tax income would have been approximately RMB0.3 million and RMB0.5 million higher/lower for the years ended December 31, 2019 and 2020, respectively as a result of net foreign exchange gains/losses on translation of net monetary assets denominated in HK\$, while the post-tax income would have been approximately RMB2.8 million and RMB3.2 million lower/higher for the year ended December 31, 2021 and the six months ended June 30, 2022, respectively, as a result of net foreign exchange losses/gains on translation of net monetary liabilities denominated in HK\$.

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Preferential tax treatment

Generally, the income tax provision of our Group in respect of our operations in the PRC was calculated at the tax rate of 25% on the assessable profits based on the existing legislation, interpretations and practices in respect thereof, except for stated below:

During the Track Record Period, we have benefited from a series of preferential tax treatment in the PRC, which had contributed to our results of operations. Wangchen Technology has obtained its qualification as a “High and New Technology Enterprise” (“HNTe”) in December 2019 and it was entitled to a reduced preferential CIT rate of 15% for the years ended December 31, 2019 and 2020 according to the tax preference applicable to the HNTe. Wangchen Technology was subject to CIT rate of 25% for the year ended December 31, 2021 and the six months ended June 30, 2022. The WFOE has fulfilled the requirement of the “Preferential Corporate Income Tax Treatment for Qianhai Shenzhen — Hong Kong Modern Service Industry Cooperation Zone” and it was subject to a reduced preferential CIT tax rate of 15% for the year ended 31 December 31, 2021 and the six months ended June 30, 2022. According to the relevant laws and regulations promulgated by the PRC State Administration of Taxation that was effective from 2018 onwards, enterprises engaging in research and development activities are entitled to claim up to 175% of their qualified research and development expenses incurred as tax deductible expenses when determining their assessable profits for that year (“**Super Deduction**”).

These preferential tax treatments and Super Deduction have lowered our income tax expenses. The tax effect of the preferential tax rates and Super Deduction amounted to RMB9.8 million, RMB10.2 million, RMB10.6 million and RMB5.4 million for the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022, respectively resulting in our effective tax rate of approximately 9.6%, 9.1%, 5.6% and 14.9% for the same periods. However, there is no assurance that no further change will be made to the PRC tax policies or industry encouraging policies that could materially and adversely affect our results of operations. If there is any further change to the preferential tax treatment that we had been enjoying during the Track Record Period, our income tax expenses may increase significantly, which would materially and adversely affect our financial condition and profitability. Please refer to the section headed “Risk Factors — Failure to obtain government grants and subsidies or preferential tax treatments that may be available to us, or discontinuation, reduction or delay of any of the government grants or preferential tax treatments currently enjoyed by us in the future could materially and adversely affect our business, financial condition and results of operations.”

BASIS OF PRESENTATION

Immediately prior to the Reorganisation, our Group’s business was carried out through the PRC Operating Entities. Pursuant to the Reorganisation, the PRC Operating Entities, through direct equity holding and the Contractual Arrangements, and Gala Sports HK are effectively controlled by Gala Technology (BVI), and ultimately controlled by our Company. Our Company and those intermediate holding companies newly set up during the Reorganisation have not been involved in any other business prior to the Reorganisation and their operations do not meet the definition of a business. The Reorganisation is merely a recapitalisation of our Group’s business with no change in management of such business and the ultimate owners of our Group’s business remain substantially the same. Accordingly, our Group resulting from the Reorganisation is regarded as a continuation of our Group’s business conducted through our Company and the Historical Financial information of the companies now comprising our Group is presented using the respective carrying value of our Group’s business for all periods presented.

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Intercompany transactions, balances and unrealised gains/losses on transactions between subsidiaries now comprising our Group are eliminated upon combination.

CRITICAL ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES

The discussion and analysis of our results of operations and financial conditions are based on our consolidated financial information prepared in accordance with HKFRS. Some of our accounting policies involve subjective assumptions and estimates, as well as complex judgments relating to accounting items. The estimates and assumptions we use and the judgments we make in applying our accounting policies have a significant impact on our financial position and operating results. Our management continuously evaluates such estimates, assumptions and judgments based on past experience and other factors, including industry practices and expectations of future events that are believed to be reasonable under the circumstances. There has not been any material deviation between our management’s estimates or assumptions and actual results, and we have not made any material changes to these estimates or assumptions during the Track Record Period. We do not expect any material changes in these estimates and assumptions in the foreseeable future.

Our significant accounting policies, estimates and judgments, which are important for an understanding of our financial condition and results of operations, including any changes in accounting policy and disclosures, are set forth in detail in notes 2 and 4 to the Accountant’s Report in Appendix I to this document. We set forth below those accounting policies that we believe to involve the most significant estimates and judgements used in the preparation of our financial statements.

Game revenue recognition

We are a mobile sports game developer, publisher and operator. Revenue generated from our self-developed games are derived principally from various arrangements, including games published by us and distributed via third-party distribution platforms and games published by other third-party game publishers under various game publishing arrangements. Our games are operated under a free-to-play model whereby users can download the games free of charge and are charged for the purchase of in-game virtual items by third-party payment vendors.

For revenue generated from our games published by us, the third-party distribution platforms and the payment vendors (together, the “**Platforms**”) are entitled to commission fees or handling fees, as the case may be, which are withheld and deducted (together with any applicable administrative charges (for example, local indirect tax and foreign exchange conversion charges, etc.)) from the gross proceeds collected from the game users, with the net amounts remitted to us. For revenue generated from our games published by third-party publishers through their own designated platforms, including web-based version and through mobile application marketplaces, proceeds from the sale of in-game tokens and other virtual items are collected by the third-party publishers or its designated distribution and payment platforms and revenue is shared between us and such third-party publishers at a pre-determined rate. We recognize the revenue on a gross basis, with the commission charged by the Platforms and revenue sharing to the third-party publishers as the cost of revenue.

Regardless of revenue generated from our games published by us or from our games published by third-party publishers under certain game publishing arrangements, as we are obliged to provide on-going services to users who purchased virtual items over an average playing period, and accordingly, we recognize revenues rateably over the estimated average playing period of these paying users starting from the point in time when in-game tokens or other virtual items are delivered

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to the users’ accounts, and all other revenue recognition criteria are met. As the games are operated under a free-to-play model and revenue is generated from paying users when they purchase game tokens for in-game virtual items, we focus on the playing period of paying users when estimating the period over which revenue is being recognized. For consumable virtual items which are extinguished after consumption in the form of fixed charges levied on each round of games played, revenue is recognised (as a release from contract liabilities) when the items are consumed and the related services are rendered. For durable virtual items which are accessible and beneficial to users over an extended period of time, such as players, jersey of the players and permanent in-game tools, revenue is recognised rateably over the average life of durable virtual items for the applicable game, which we make best estimates to be average playing period of paying users (“**User Relationship Period**”). Regarding the User Relationship Period, we track each of our paying users’ purchases and log in history for each significant game to estimate the average playing period of the paying users. If a new game is launched and only a limited period of paying user data are available, we would then consider other qualitative factors, such as the playing patterns of paying users for other games with similar characteristics. The User Relationship Period is assessed on a game-by-game basis.

If we do not have the ability to differentiate revenue attributable to durable virtual items from consumable virtual items for a specific game, we recognize revenue from both durable and consumable virtual items for that game rateably over the User Relationship Period.

While we believe the estimates to be reasonable based on available game user information, we may revise such estimates in the future as the games’ operation periods change, more sufficient individual game data become available, or there is indication that the similarities in characteristics with other games and playing patterns of paying users of the games change. Any adjustments arising from changes in User Relationship Period would be applied prospectively on the basis that such changes are caused by new information indicating a change in user behaviour patterns. Any changes in our Group’s User Relationship Period may result in revenues being recognised on a basis different from prior periods’ and may cause its operating results to fluctuate.

The following table sets forth the average User Relationship Period for our *Football Master* (足球大師), *NBA Basketball Master* (NBA籃球大師) and *Football Champion* (最佳11人 — 冠軍球會) for the periods indicated.

	For the year ended December 31,			For the six months ended June 30,	
	2019	2020	2021	2021	2022
	(in months)				
<i>Football Master</i> (足球大師)	2	3	3	3	3
<i>NBA Basketball Master</i> (NBA籃球大師)	2	1	1	1	1
<i>Football Champion</i> (最佳11人 — 冠軍球會)	— ⁽¹⁾	1 ⁽¹⁾	1	1	1

Note:

- (1) *Football Champion* (最佳11人 — 冠軍球會) was officially launched in April 2020. Thus, the User Relationship Period of *Football Champion* (最佳11人 — 冠軍球會) for the year ended December 31, 2019 and for the three months ended March 31, 2020 was based on the public testing during the year/period.

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During the Track Record Period, we assessed our User Relationship Period on a game-by-game basis by tracking our paying users’ purchases and log in history for each of our games to estimate the average playing period of the paying users. The fluctuations in the User Relationship Period for our games during the Track Record Period were mainly caused by changes in user behavior patterns (i.e. the time interval between the in-app purchase and the subsequent log-in by the user) during the corresponding financial periods. The User Relationship Period of our mobile games could be extended or shortened during a particular period as a result of the users’ login activities, virtual item portfolio uploaded to the games from time to time, and game playing patterns influenced by our marketing activities or seasonality of the real-life sports events. Other than that, there is no other material revision applied to the User Relationship Period assessment of our games during the Track Record Period. Such operating data of User Relationship Period, which were mainly caused by changes in user behaviour patterns during a particular financial period, should be distinguished from our estimates of the game lifecycle (which represents the entire timeframe and stage of a game’s operation, and for each of our Group’s games, is based on the time difference between the launch time of the game and the baseline of ten year lifecycle of a Model B game). According to the Frost & Sullivan Report, the user relationship period for different mobile games is not directly comparable to each other as such estimates are sensitive to temporary changes in user behaviour patterns and game-specific design and update plan, and any temporary fluctuations in user relationship period across financial periods are common and may not be indicative of the lifecycle of a mobile game. Having said that, to the best knowledge of the Directors and Frost & Sullivan, the User Relationship Period of our Group’s games during the Track Record Period falls within the average industry range of approximately one to six months with reference to other listed market peers.

Contract liabilities and contract costs

Contract liabilities primarily consist of the unamortized revenue from sales of in-game tokens and other virtual items mainly including durable virtual items for mobile games. Although the in-game tokens and other virtual items are non-refundable and the underlying transactions are irrevocable, there is still an implied obligation of our Group to maintain and allow access of our users to the games and the purchased in-game tokens and other virtual items, therefore, the payment for the in-game tokens and other virtual items will be recognized as revenue rateably during the User Relationship Period.

Contract costs primarily refer to incremental costs of obtaining a contract, including unamortized commission fee charged by the Platforms and unamortized revenue sharing to third-party publishers which are capitalised if they are expected to be recognized. Capitalized contract costs are amortized on a systematic basis consistent with the pattern of the transfer of the goods or services to which the asset relates.

Intangible assets

Licenses

Under certain licensing arrangements we entered with IP right holders, we pay upfront license fees to IP right holders as we are entitled to the non-exclusive rights to use the intellectual properties in specified geographic areas for certain period of time. A license has a definite useful life and is carried at amortized cost less accumulated amortisation and accumulated impairment loss, if any. They are initially measured at fair value of the consideration required at the time of the acquisition. The consideration required represents the non-cancellable upfront fee and the capitalized present values of the fixed royalty fee to be made in subsequent years in respect of obtaining the IP right licenses.

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Licenses are amortized on a straight-line basis in accordance to the license period for one to four years. These amortisation are expensed to the cost of revenue (where the games are commercially launched) or general and administrative expenses (where the games are not yet commercially launched).

Payment of upfront license fees for the cancellable licenses are recognized as prepayment in the consolidated statements of financial position and amortized on a straight-line basis in accordance to the license period.

Research and development expenses

Research expenditure is recognized as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are capitalized as intangible assets when recognition criteria are fulfilled as follows: (i) it is technically feasible to complete the game product so that it will be available for use; (ii) the management intends to complete the game product and use or sell it; (iii) there is an ability to use or sell the game product; (iv) it can be demonstrated how the game product will generate probable future economic benefits; (v) adequate technical, financial and other resources to complete the development and to use or sell the game product are available; and (vi) the expenditure attributable to the game product during its development can be reliably measured. Other development expenditures that do not meet those criteria are recognized as expenses as incurred.

Development costs previously recognized as expenses are not recognized as assets in subsequent periods. Capitalized development costs are amortized from the point at which the assets are ready for use on a straight-line basis over their useful lives. Research and development expenses consist primarily of salaries and benefits for our research and development personnel.

During the Track Record Period, all research and development expenditures were recognized in profit or loss as they do not meet the recognition criteria for capitalization.

Software

Acquired software are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives (one to ten years). Costs associated with developing or maintaining computer software programs are recognized as an expense as incurred.

Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses. Current and deferred tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where we have a legally enforceable right to offset and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

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Equity-settled share-based payment

We operate a number of equity-settled share-based compensation, under which we receive services from employees as consideration for equity instruments of our Group. The fair value of the employee services received in exchange for the grant of equity instruments is recognized as an expense. The total amount to be expensed is determined by reference to the fair value of the equity instruments granted including any market performance conditions and the impact of any non-vesting conditions, but excluding the impact of any service and non-market performance vesting conditions.

Non-market performance and service conditions are included in assumptions about the number of equity instruments that are expected to vest. The total expense is recognized over the vesting period, which is the period over when all of the specified vesting conditions are to be satisfied. At the end of each reporting period, we would revise our estimates of the number of share options that are expected to vest based on non-marketing vesting conditions. We recognize the impact of the revision to estimates, if any, in the profit or loss with corresponding adjustment to equity.

Financial liability at fair value through profit or loss

We recognized the Pre-[REDACTED] Convertible Bonds as a financial liability at fair value through profit or loss, which is initially measured at fair value. Any directly attributable transaction costs are recognized in profit or loss. Subsequent to the initial recognition, the component of fair value changes relating to our own credit risk is recognized in other comprehensive income. Amounts recorded in other comprehensive income related to credit risk are not subject to recycling in profit or loss, but are transferred to retained earnings when realized. Fair value changes relating to market risks are recognized in profit or loss.

Our Group’s management adopted the following procedures in respect of the valuation of level 3 financial liability at fair value through profit or loss:

- (i) our chief financial officer, possessing relevant professional and adequate accounting knowledge, conducted assessment on the valuation on the Pre-[REDACTED] Convertible Bonds with careful consideration of, including but not limited to, the valuation methodologies, computation bases, benchmark comparable, key assumptions and underlying rationales;
- (ii) our Directors carefully considered the available information in determining key inputs, financial data and assumptions adopted by the chief financial officer in the valuation of the Pre-[REDACTED] Convertible Bonds, including but not limited to, discount rate, risk factors, macro-economic and industry conditions;
- (iii) our Company has also engaged an independent external valuer to appraise the fair value of the Pre-[REDACTED] Convertible Bonds, and provided necessary financial information and key assumptions to the independent external valuer to assess our Company’s valuation procedures and discussed with the independent external valuer on the appropriateness of the relevant assumptions adopted;
- (iv) our Directors and the chief financial officer reviewed and discussed the valuation reports prepared by the independent external valuer in accordance with the International Valuation Standards issued by the International Valuation Standards Council and confirmed their agreement with the valuation results performed by the Company;

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- (v) our Group’s management prepared the Historical Financial Information of our Group in accordance with the HKFRS; and
- (vi) our Group’s management will perform periodic review and assessment on the valuation of the level 3 financial liability at fair value through profit or loss based on the latest available information.

Based on the above procedures, our Directors are of the view that the valuation analysis performed by the Company and the independent external valuer is fair and reasonable and our Group’s Historical Financial Information is properly prepared. Our Group’s management is satisfied with the valuation work performed on the level 3 financial liability at fair value through profit or loss during the Track Record Period.

Details of the fair value estimation of the financial liability at fair value through profit or loss, including the fair value hierarchy, the valuation techniques and key inputs used to determine fair values and significant unobservable inputs (level 3) are disclosed in Note 3.3 of the Accountant’s Report in Appendix I to this document which was issued by the Reporting Accountant in accordance with Hong Kong Standard on Investment Circular Reporting Engagement 200 “Accountants’ Report on Historical Financial Information in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants. The Reporting Accountant’s opinion on the Historical Financial Information, as a whole, of our Group for the Track Record Period is set out on page I-2 of Appendix I to this document.

In relation to the valuation of our Group’s level 3 financial liability at fair value through profit or loss, the Sole Sponsor has conducted, among others, the following independent due diligence work:

- (i) discussed with the management of the Company, including the chief financial officer who is familiar with the valuation of the level 3 financial liability at fair value through profit or loss, to understand (a) the nature and details of the level 3 financial liability at fair value through profit or loss, and the procedures performed for such valuation; (b) our Group’s internal policies and procedures regarding classification and valuation assessment of the level 3 financial liability at fair value through profit or loss; and (c) the key bases, methodologies and assumptions adopted by our Group for such valuation assessment;
- (ii) discussed with the Reporting Accountant and the independent external valuer, respectively, to understand the relevant audit procedures and valuation analysis performed with respect to our Group’s level 3 financial liability at fair value through profit or loss during the Track Record Period and noted (a) the unqualified opinion on our Group’s historical financial information for the Track Record Period as a whole issued by the Reporting Accountant in Appendix I to this document; and (b) there was no disagreement between the Company and the independent external valuer in the valuation assessment; and
- (iii) reviewed the relevant notes in the Accountant’s Report and the relevant Pre-[REDACTED] CB Subscription Agreement and the supplemental deed concerning the corresponding level 3 financial liability at fair value through profit or loss during the Track Record Period.

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

The following table presents items of the consolidated statements of comprehensive income of our Group in absolute amounts and as percentages to our total revenue for the periods indicated.

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(Unaudited)									
Revenue	378,630	100.0	404,745	100.0	459,851	100.0	180,974	100.0	294,775	100.0
Cost of revenue	(207,529)	(54.8)	(224,354)	(55.4)	(238,324)	(51.8)	(98,332)	(54.3)	(145,910)	(49.5)
Gross profit	171,101	45.2	180,391	44.6	221,527	48.2	82,642	45.7	148,865	50.5
Other gains/(losses), net	669	0.2	(4,903)	(1.2)	(1,137)	(0.2)	733	0.4	1,034	0.3
Other income	962	0.3	1,931	0.5	3,319	0.7	1,354	0.8	3,594	1.2
Selling and marketing expenses	(60,278)	(15.9)	(62,889)	(15.5)	(85,590)	(18.6)	(31,992)	(17.7)	(73,445)	(24.9)
General and administrative expenses	(23,225)	(6.1)	(21,119)	(5.2)	(34,589)	(7.5)	(22,062)	(12.2)	(17,461)	(5.9)
Research and development expenses	(40,092)	(10.6)	(45,232)	(11.2)	(62,705)	(13.6)	(25,689)	(14.2)	(37,508)	(12.7)
(Net impairment losses)/reversal of impairment loss on financial assets	(129)	*	(3,788)	(0.9)	160	*	2	*	(1,772)	(0.6)
Operating profit	49,008	12.9	44,391	11.0	40,985	8.9	4,988	2.8	23,307	7.9
Finance income, net	1,524	0.4	401	0.1	741	0.2	183	0.1	570	0.2
Profit before income tax	50,532	13.3	44,792	11.1	41,726	9.1	5,171	2.9	23,877	8.1
Income tax (expense)/credit	(4,852)	(1.3)	(4,066)	1.0	(2,336)	(0.5)	1,858	1.0	(3,551)	(1.2)
Profit and total comprehensive income for the year/period, net of tax	45,680	12.1	40,726	10.1	39,390	8.6	7,029	3.9	20,326	6.9
Comprehensive income/(loss) attributable to:										
Owners of the Company	46,627	12.3	41,498	10.3	39,986	8.7	7,404	4.1	20,374	6.9
Non-controlling interests	(947)	(0.2)	(772)	(0.2)	(596)	(0.1)	(375)	(0.2)	(48)	*
	45,680	12.1	40,726	10.1	39,390	8.6	7,029	3.9	20,326	6.9

* Less than 0.1%

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NON-HKFRS MEASURE

To supplement our consolidated financial statements which are presented in accordance with HKFRS, we set forth in the table below the adjusted net profit (Non-HKFRS measure) of our Group for the periods indicated after adjusting for the net fair value changes on the Pre-[REDACTED] Convertible Bonds and the [REDACTED] expenses as a non-HKFRS measure:

	Year ended December 31,			Six months ended	
	2019	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)				
Profit and total comprehensive income, net of tax	45,680	40,726	39,390	7,029	20,326
Add:					
Fair value loss on a financial liability measured at fair value through profit or loss	—	—	1,479	—	4,379
[REDACTED] expenses	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Deduct:					
Fair value gain on extension of a financial liability measured at fair value through profit or loss	—	—	—	—	(3,065)
Adjusted net profit (Non-HKFRS measure)	49,878	45,496	56,726	20,287	27,333

Our Group defines adjusted net profit (non-HKFRS measure) as profit and total comprehensive income, net of tax, for the period adjusted by the net fair value changes on the Pre-[REDACTED] Convertible Bonds (i.e. by adding back the fair value loss on the Pre-[REDACTED] Convertible Bonds and deducting the fair value gains on extension of the Pre-[REDACTED] Convertible Bonds) and the [REDACTED] expenses. Our Group does not expect to record any further gain or loss due to fair value changes on the Pre-[REDACTED] Convertible Bonds thereafter. Further, the [REDACTED] expenses were added back to the adjusted net profit (non-HKFRS measure) as the [REDACTED] expenses are expenses related to the [REDACTED]. Therefore, our Group eliminates the potential impacts of such items that are expenses incurred in relation to the [REDACTED].

Our Group believes that the presentation of such non-HKFRS measure when shown in conjunction with the corresponding HKFRS measures provides useful information to potential investors and management in facilitating a comparison of our operating performance from period to period by eliminating potential impacts of the net fair value changes on the Pre-[REDACTED] Convertible Bonds and the [REDACTED] expenses. The use of the non-HKFRS measure has

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limitations as any other analytical tool, and you should not consider it in isolation from, or as a substitute for or superior to, the analysis of our results of operations or financial condition as reported under the HKFRS. In addition, the non-HKFRS measure may be defined differently from similar terms used by other companies.

DESCRIPTION OF MAJOR COMPONENTS OF OUR RESULTS OF OPERATIONS

Revenue

During the Track Record Period, our revenue was generated from the sales of in-game tokens and other virtual items. For the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022, our total revenue generated amounted to approximately RMB378.6 million, RMB404.7 million, RMB459.9 million and RMB294.8 million, respectively.

Revenue by games

The following table sets forth a breakdown of revenue by our games in absolute amounts and as percentages to our total revenue for the periods indicated:

	2019		Year ended December 31,				Six months ended June 30,			
	RMB'000	%	2020	%	2021	%	2021	%	2022	%
			RMB'000		RMB'000		RMB'000		RMB'000	
							(Unaudited)			
Football Master (足球大師)	174,693	46.2	145,369	35.9	134,988	29.4	67,546	37.3	55,264	18.7
NBA Basketball Master (NBA籃球大師)	195,905	51.7	216,479	53.5	176,693	38.4	80,703	44.6	83,715	28.4
Football Champion (最佳11人 — 冠軍球會)	68	*	41,368	10.2	148,170	32.2	32,725	18.1	155,796	52.9
Chinese Super League (冠軍中超OL)	7,205	1.9	857	0.2	—	—	—	—	—	—
Idol Love Story (戀愛吧!偶像)	759	0.2	672	0.2	—	—	—	—	—	—
Total	378,630	100.0	404,745	100.0	459,851	100.0	180,974	100.0	294,775	100.0

* Less than 0.1%

During the Track Record Period, the majority of our revenue were generated from our existing games, i.e. *Football Master (足球大師)*, *NBA Basketball Master (NBA籃球大師)* and *Football Champion (最佳11人 — 冠軍球會)*, which contributed to approximately RMB370.7 million, RMB403.2 million, RMB459.9 million and RMB294.8 million, representing 97.9%, 99.6%, 100.0% and 100.0% of our total revenue, respectively. Although *Football Champion (最佳11人 — 冠軍球會)* was officially launched in April 2020, we generated minimal revenue for *Football Champion (最佳11人 — 冠軍球會)* in 2019 from public testing.

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Revenue by publishing models

The following table sets forth a breakdown of revenue by publishing models in absolute amounts and as percentages to our total revenue for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(Unaudited)									
Self-publishing games	360,360	95.2	395,024	97.6	452,672	98.4	176,928	97.8	292,106	99.1
Third party publishing games	18,270	4.8	9,721	2.4	7,179	1.6	4,046	2.2	2,669	0.9
Total	378,630	100.0	404,745	100.0	459,851	100.0	180,974	100.0	294,775	100.0

During the Track Record Period, our games were primarily published and downloaded from third-party distribution platforms. We publish our games through (i) various third-party distribution platforms including application marketplaces such as Huawei, Xiaomi, OPPO, Vivo, Tencent Appstore, Google Play, TapTap and Apple AppStore for users to download our games; (ii) our official website where we place QR codes for visitors to download and install our games; and (iii) commissioning third-party advertising and marketing agencies to publicize our games with links which would be directed to the official website of our games or various third-party distribution platforms. For games published by third-party publishers, we grant them rights to publish our games on the designated distribution platforms as an agent and share revenue on a pre-determined rate.

Cost of revenue

Our cost of revenue primarily consists of (i) commission fee to the Platforms; (ii) license fees which include our amortisation charges on royalty fees to our IP right holders; (iii) revenue sharing to third-party publishers; (iv) staff costs for daily operation and (v) server usage expenses. During the Track Record Period, our cost of revenue amounted to approximately RMB207.5 million, RMB224.4 million, RMB238.3 million and RMB145.9 million, accounting for approximately 54.8%, 55.4%, 51.8% and 49.5% of our total revenue for the corresponding periods, respectively. The following table sets forth a breakdown of our cost of revenue in absolute amounts and as percentages to our total cost of revenue for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(Unaudited)									
Commission fee to the Platforms	142,939	68.9	157,331	70.1	168,098	70.5	69,185	70.4	102,290	70.1
License fees	40,118	19.3	47,711	21.3	47,739	20.0	19,194	19.5	29,813	20.4
Revenue sharing to third-party publishers	14,764	7.1	8,129	3.6	5,682	2.4	3,215	3.3	2,244	1.5
Staff costs	5,287	2.5	5,920	2.6	8,503	3.6	3,620	3.7	5,782	4.0
Server usage expenses	3,757	1.8	4,638	2.1	7,434	3.1	2,830	2.9	5,121	3.5
Others*	664	0.4	625	0.3	868	0.4	288	0.2	660	0.5
Total cost of revenue	207,529	100.0	224,354	100.0	238,324	100.0	98,332	100.0	145,910	100.0

* Others mainly consist of depreciation of property, plant and equipment and depreciation of right-of-use assets.

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The following table sets forth a breakdown of our cost of revenue by games in absolute amounts and as percentages to our total costs of revenue for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(Unaudited)									
Football Master (足球大師)	93,394	45.0	83,447	37.2	74,284	31.2	37,508	38.1	31,572	21.6
NBA Basketball Master (NBA籃球大師)	102,698	49.5	115,643	51.5	92,952	39.0	42,264	43.0	44,795	30.7
Football Champion (最佳11人 — 冠軍球會)	977	0.5	18,019	8.0	61,647	25.9	14,652	14.9	63,102	43.2
Chinese Super League (冠軍中超OL)	3,899	1.9	226	0.1	—	—	—	—	—	—
Idol Love Story (戀愛吧！偶像)	610	0.3	475	0.2	—	—	—	—	—	—
Others*	5,951	2.8	6,544	3.0	9,441	3.9	3,908	4.0	6,441	4.5
Total cost of revenue	207,529	100.0	224,354	100.0	238,324	100.0	98,332	100.0	145,910	100.0

* Others mainly consist of staff costs, depreciation of property, plant and equipment and depreciation of right-of-use assets.

Gross profit

For the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022, our total gross profit amounted to approximately RMB171.1 million, RMB180.4 million, RMB221.5 million and RMB148.9 million, respectively, representing a gross profit margin of approximately 45.2%, 44.6%, 48.2% and 50.5%, respectively.

The following table sets forth a breakdown of our gross profit and gross profit margin by our games for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	Gross profit		Gross profit		Gross profit		Gross profit		Gross profit	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(Unaudited)									
Football Master (足球大師)	81,299	46.5	61,922	42.6	60,704	45.0	30,038	44.5	23,692	42.9
NBA Basketball Master (NBA籃球大師)	93,207	47.6	100,836	46.6	83,741	47.4	38,439	47.6	38,920	46.5
Football Champion (最佳11人 — 冠軍球會)	(909)	—	23,349	56.4	86,523	58.4	18,073	55.2	92,694	59.5
Chinese Super League (冠軍中超OL)	3,306	45.9	631	73.6	—	—	—	—	—	—
Idol Love Story (戀愛吧！偶像)	149	19.6	197	29.3	—	—	—	—	—	—
Others*	(5,951)	—	(6,544)	—	(9,441)	—	(3,908)	—	(6,441)	—
Total	171,101	45.2	180,391	44.6	221,527	48.2	82,642	45.7	148,865	50.5

* Others refer to cost of revenue unallocated to different games, mainly consist of staff costs, depreciation of property, plant and equipment and depreciation of right-of-use assets.

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Other gains/(losses), net

Our other net gains/(losses) primarily consist of (i) fair value gains on financial assets measured at fair value through profit or loss; (ii) fair value gain on extension of a financial liability measured at fair value through profit or loss; (iii) fair value loss on a financial liability measured at fair value through profit or loss; (iv) loss on disposal of property, plant and equipment; and (v) net exchange gain or loss. The following table sets forth a breakdown of our other net gains/(losses) in absolute amounts and as percentages to our total other net gains/(losses) for the periods indicated:

	Year ended December 31,				Six months ended June 30,					
	2019		2020		2021		2021		2022	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(Unaudited)									
Fair value gains on financial assets measured at fair value through profit or loss	526	78.6	334	(6.8)	485	(42.7)	211	28.8	45	4.4
Fair value gain on extension of a financial liability measured at fair value through profit or loss	—	—	—	—	—	—	—	—	3,065	296.4
Fair value loss on a financial liability measured at fair value through profit or loss	—	—	—	—	(1,479)	130.1	—	—	(4,379)	(423.5)
Loss on disposal of property, plant and equipment	—	—	(7)	0.1	(748)	65.8	(26)	(3.6)	—	—
Exchange gain/(loss), net	143	21.4	(5,187)	105.8	145	(12.8)	151	20.6	2,245	217.1
Others	—	—	(43)	0.9	460	(40.4)	397	54.2	58	5.6
Total	669	100.0	(4,903)	100.0	(1,137)	100.0	733	100.0	1,034	100.0

Our fair value gains on financial assets measured at fair value through profit or loss represents the change in fair value of our investments in the wealth management products. The fair value gain on extension of a financial liability measured at fair value through profit or loss was resulted from the extension of the maturity date of the Pre-[REDACTED] Convertible Bonds from June 6, 2022 to June 6, 2023 pursuant to the supplemental deed executed between our Company and Garena Ventures on May 31, 2022, with other material terms and conditions remain unchanged. Our fair value loss on a financial liability measured at fair value through profit or loss represents the fair value loss on the Pre-[REDACTED] Convertible Bonds recognized in profit or loss. Our net exchange gain or loss represents exchange difference resulting from translation of our foreign currency transactions into our functional currency, RMB, at the prevailing exchange rate.

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Other income

During the Track Record Period, our other income amounted to approximately RMB1.0 million, RMB1.9 million, RMB3.3 million and RMB3.6 million, accounting for approximately 0.3%, 0.5%, 0.7% and 1.2% of our total revenue for the corresponding periods, respectively. The following table sets forth a breakdown of our other income in absolute amounts and as percentages to our total other income for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(Unaudited)									
Government grants	763	79.3	1,593	82.5	2,978	89.7	1,184	87.4	2,706	75.3
Others*	199	20.7	338	17.5	341	10.3	170	12.6	888	24.7
Total	962	100.0	1,931	100.0	3,319	100.0	1,354	100.0	3,594	100.0

* Others mainly consist of VAT reduction entitled by our Group under a special policy for production and living services for tax-paying entities announced by the relevant PRC authority in 2019 and advertising income.

Our other income primarily consists of grants and subsidies for technological innovation received from the local government. As of the Latest Practicable Date, there are no unfulfilled conditions or other contingencies attaching to these grants and subsidies.

Selling and marketing expenses

During the Track Record Period, our selling and marketing expenses amounted to approximately RMB60.3 million, RMB62.9 million, RMB85.6 million and RMB73.4 million, accounting for approximately 15.9%, 15.5%, 18.6% and 24.9% of our total revenue for the corresponding years, respectively. The following table sets forth a breakdown of our selling and marketing expenses in absolute amounts and as percentages to our total selling and marketing expenses for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(Unaudited)									
Advertising and marketing expenses	54,468	90.4	56,309	89.5	76,451	89.3	28,325	88.5	67,742	92.3
Employee benefits and salaries	5,074	8.4	5,832	9.3	7,795	9.1	3,318	10.4	4,785	6.5
Data analyzing service fees	267	0.4	199	0.3	499	0.6	60	0.2	314	0.4
Others*	469	0.8	549	0.9	845	1.0	289	0.9	604	0.8
Total	60,278	100.0	62,889	100.0	85,590	100.0	31,992	100.0	73,445	100.0

* Others mainly consist of rental expenses attributable to our sales and marketing staff, depreciation of property, plant and equipment and depreciation of right-of-use assets.

FINANCIAL INFORMATION

Our selling and marketing expenses primarily comprised (i) advertising and marketing expenses, which mainly consisted of our fees payable to third-party advertising and marketing agents for online advertising services and our brand ambassadors; (ii) employee benefits and salaries for our sales and marketing staff; and (iii) data analyzing service fees, which consisted of fees payable to third-party service providers for the provision of market data analysis to evaluate the efficiency of our marketing efforts.

During the Track Record Period, approximately 86.1%, 85.2%, 87.3% and 89.9% of our total advertising and marketing expenses were incurred to promote and market our Group’s games via our top five advertising and marketing channels, respectively. The following table sets forth a breakdown of our advertising and marketing expenses attributable to our top five advertising and marketing channels during Track Record Period:

For the year ended December 31, 2019

Channel ⁽¹⁾	Advertising and marketing expenses (RMB'000)	Percentage of total advertising and marketing expenses (%)
Channel A	29,390	54.0
Channel B ⁽²⁾	8,954	16.4
Channel C	4,468	8.2
Channel D	2,107	3.9
Channel E	1,957	3.6
Total	46,876	86.1

Notes:

- (1) The identities of our top five advertising and marketing channels are not disclosed as their consents have not been obtained as of the Latest Practicable Date.
- (2) Channel B is a digital marketing and advertising service provider which distributes online advertisements for our games on various marketing and advertising channels in the PRC.

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For the year ended December 31, 2020

Channel ⁽¹⁾	Advertising and marketing expenses (RMB'000)	Percentage of total advertising and marketing expenses (%)
Channel A	31,054	55.1
Channel B ⁽²⁾	7,323	13.0
Channel C	6,858	12.2
Channel F	1,900	3.4
Channel E	854	1.5
Total	47,989	85.2

Notes:

- (1) The identities of our top five advertising and marketing channels are not disclosed as their consents have not been obtained as of the Latest Practicable Date.
- (2) Channel B is a digital marketing and advertising service provider which distributes online advertisements for our games on various marketing and advertising channels in the PRC.

For the year ended December 31, 2021

Channel ⁽¹⁾	Advertising and marketing expenses (RMB'000)	Percentage of total advertising and marketing expenses (%)
Channel A	40,730	53.3
Channel E	12,388	16.2
Channel G	7,609	10.0
Channel H	4,158	5.4
Channel B ⁽²⁾	1,802	2.4
Total	66,687	87.3

Notes:

- (1) The identities of our top five advertising and marketing channels are not disclosed as their consents have not been obtained as of the Latest Practicable Date.
- (2) Channel B is a digital marketing and advertising service provider which distributes online advertisements for our games on various marketing and advertising channels in the PRC.

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For the six months ended June 30, 2022

Channel ⁽¹⁾	Advertising and marketing expenses (RMB'000)	Percentage of total advertising and marketing expenses (%)
Channel A	23,134	34.2
Channel G	22,453	33.1
Channel E	11,179	16.5
Channel H	2,648	3.9
Channel I	1,509	2.2
Total	60,923	89.9

Note:

- (1) The identities of our top five advertising and marketing channels are not disclosed as their consents have not been obtained as of the Latest Practicable Date.

General and administrative expenses

During the Track Record Period, our general and administrative expenses amounted to approximately RMB23.2 million, RMB21.1 million, RMB34.6 million and RMB17.5 million, accounting for approximately 6.1%, 5.2%, 7.5% and 5.9% of our total revenue for the corresponding periods, respectively. The following table sets forth a breakdown of our general and administrative expenses in absolute amounts and as percentages to our total general and administrative expenses for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000 (Unaudited)	%	RMB'000	%
Employee benefits and salaries	8,413	36.2	9,955	47.1	10,640	30.8	5,011	22.7	6,011	34.4
[REDACTED] expenses	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Tax and levies	1,712	7.4	2,061	9.8	2,383	6.9	916	4.2	1,708	9.8
Offices expenses	675	2.9	977	4.6	1,081	3.1	478	2.2	613	3.5
Other professional service fees and auditors' remunerations	1,567	6.7	777	3.7	1,900	5.5	1,162	5.3	1,448	8.3
Depreciation of right-of-use assets	225	1.0	245	1.2	346	1.0	106	0.5	226	1.3
Travelling expenses	468	2.0	196	0.9	212	0.6	83	0.4	28	0.2
Amortisation of intangible assets	3,328	14.3	153	0.7	158	0.5	78	0.4	132	0.8
Depreciation of property, plant and equipment	119	0.5	147	0.7	161	0.5	73	0.3	80	0.5
Royalty fees	748	3.2	—	—	—	—	—	—	209	1.2
Others*	1,772	7.7	1,838	8.7	1,851	5.3	897	3.9	1,313	7.4
Total	23,225	100.0	21,119	100.0	34,589	100.0	22,062	100.0	17,461	100.0

- * Others mainly consist of telecommunication fee, recruitment fee, utilities expenses, building management fee and rental expenses.

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Our general and administrative expenses primarily comprised of (i) employee benefits and salaries for our general and administrative staff; (ii) [REDACTED] expenses; (iii) tax and levies, mainly consisting of value-added tax adjustments and other related taxes in the PRC; (iv) office expenses; (v) other professional service fees and auditors’ remunerations; (vi) depreciation of right-of-use assets; (vii) travelling expenses; (viii) amortisation of intangible assets; (ix) depreciation of property, plant and equipment; and (x) royalty fees representing license fees payable to IP right holders for games yet to be launched.

Research and development expenses

During the Track Record Period, our research and development expenses amounted to approximately RMB40.1 million, RMB45.2 million, RMB62.7 million and RMB37.5 million, accounting for approximately 10.6%, 11.2%, 13.6% and 12.7% of our total revenue for the corresponding periods, respectively. The following table sets forth a breakdown of our research and development expenses in absolute amounts and as percentages to our total research and development expenses for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(Unaudited)									
Employee benefits and salaries	35,774	89.2	40,789	90.2	55,552	88.6	23,528	91.6	32,580	86.9
Depreciation of right-of-use assets	1,609	4.0	1,777	3.9	2,594	4.1	781	3.0	1,972	5.3
Depreciation of property, plant and equipment	851	2.1	1,067	2.4	1,211	1.9	539	2.1	699	1.9
Graphic design expenses and dubbing fee	1,319	3.3	849	1.9	2,383	3.8	596	2.3	1,791	4.8
Others*	539	1.4	750	1.6	965	1.6	245	1.0	466	1.1
Total	40,092	100.0	45,232	100.0	62,705	100.0	25,689	100.0	37,508	100.0

* Others mainly consist of utilities and office expenses and rental expenses for research and development purposes.

Our research and development expenses primarily comprised (i) employee benefits and salaries for our research and development staff; (ii) depreciation of right-of-use assets (iii) depreciation of property, plant and equipment; and (iv) graphic design expenses and dubbing fee which included expenses payable to outsourced service providers for such services.

Net impairment losses/reversal of impairment loss on financial assets

Impairment losses on financial assets are recognized due to estimated impairment losses on trade receivables. When a receivable is considered uncollectible, it is written off against the allowance for receivables while subsequent recovery of amount previously written off are credited as reversal of impairment. For the years ended December 31, 2019 and 2020 and the six months ended June 30, 2022, we had net impairment losses on financial assets of approximately RMB0.1 million, RMB3.8 million and RMB1.8 million, respectively. We recorded a reversal of impairment loss on financial assets of approximately RMB0.2 million for the year ended December 31, 2021.

FINANCIAL INFORMATION

Finance income, net

During the Track Record Period, our net finance income amounted to approximately RMB1.5 million, RMB0.4 million, RMB0.7 million and RMB0.6 million, respectively. Our interest income mainly represents interests arising from our bank deposits and our interest expenses mainly represents interests arising from our lease liabilities. We also recorded interest income/expenses from interest accretion on licence fee and royalties payables. The following table sets forth a breakdown of our net finance income for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Interest income					
— Bank deposits	1,221	1,013	1,478	562	1,067
— Interest accretion	498	—	—	—	—
	<u>1,719</u>	<u>1,013</u>	<u>1,478</u>	<u>562</u>	<u>1,067</u>
Interest expenses					
— Lease liabilities	(195)	(172)	(437)	(79)	(349)
— Interest accretion	—	(440)	(300)	(300)	(148)
	<u>(195)</u>	<u>(612)</u>	<u>(737)</u>	<u>(379)</u>	<u>(497)</u>
Total	<u>1,524</u>	<u>401</u>	<u>741</u>	<u>183</u>	<u>570</u>

Income tax expense/(credit)

The following table sets forth a breakdown of our income tax expense/(credit) for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Current tax	4,593	3,370	820	—	4,470
Deferred income tax	259	696	1,516	(1,858)	(919)
	<u>4,852</u>	<u>4,066</u>	<u>2,336</u>	<u>(1,858)</u>	<u>3,551</u>

Taxation in Cayman Islands and BVI

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Act of the Cayman Islands and accordingly is exempt from income tax in the Cayman Islands. Also, our Group entities established under the International Business Companies Acts of BVI are exempted from BVI income taxes.

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Taxation in Hong Kong

Hong Kong profits tax is calculated at rate of 16.5% on the assessable profits. No Hong Kong profits tax was provided for as there were sufficient available accumulated tax losses brought forward to offset against the estimated assessable profit for the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022.

Taxation in the PRC

Under the prevailing PRC Corporate Income Tax Law during the Track Record Period, our PRC subsidiaries and PRC Operating Entities are subject to the statutory rate of 25%, with preferential tax treatments available to qualified enterprises in certain encouraged sectors of the economy.

Enterprises that qualify as “High and New Technology Enterprises” (“HNTe”) are entitled to a preferential CIT rate of 15%. Wangchen Technology has obtained its qualification as a HNTe in December 2019 and was entitled to the preferential CIT rate of 15% for the years ended December 31, 2019 and 2020. Wangchen Technology was subject to CIT rate of 25% for the year ended December 31, 2021 and the six months ended June 30 2022.

Enterprises located in Qianhai Shenzhen-Hong Kong Cooperation Zone, of which the major business falls within those set out in the Index of CIT of Qianhai Shenzhen-Hong Kong Cooperation Zone (2021) and the revenue from such major business accounts for over 60% of the total revenue, are entitled to a preferential CIT rate of 15%. The WFOE has fulfilled the requirement of the “Preferential Corporate Income Tax Treatment for Qianhai Shenzhen — Hong Kong Modern Service Industry Cooperation Zone” and it was subject to a reduced preferential CIT tax rate of 15% for the year ended December 31, 2021 and the six months ended June 30 2022.

Since 2018, enterprises engaging in research and development activities are also entitled, under the relevant laws and regulations promulgated by the PRC State Administration of Taxation, to claim up to 175% of their qualified research and development expenses incurred as tax deductible expenses when determining assessable profits for the year. During the Track Record Period, our Group has made best estimation for such deduction for our PRC Operating Entities in ascertaining our assessable profits.

Pursuant to the applicable PRC tax regulations, a 10% withholding tax is levied on dividends due to profits derived after January 1, 2008 and distributed to foreign investors from the enterprises established in the PRC. A lower withholding tax rate may be applied if there is a tax treaty between the PRC and the jurisdiction of the foreign investors. For our Group, the applicable rate is 10% and may be reduced to 5% if certain criteria could be met under the Double Taxation Arrangement between the PRC and Hong Kong. Our Group is therefore liable for withholding taxes on dividends distributed by our PRC subsidiaries to foreign investors in respect of profit derived from January 1, 2008.

For the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022, our income tax expense was approximately RMB4.9 million, RMB4.1 million, RMB2.3 million and RMB3.6 million, respectively. Our effective tax rate was approximately 9.6%, 9.1%, 5.6% and 14.9% for the same periods, respectively.

FINANCIAL INFORMATION

PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

Six months ended June 30, 2022 compared to six months ended June 30, 2021

Revenue

Our revenue increased by approximately RMB113.8 million, or 62.9%, from approximately RMB181.0 million for the six months ended June 30, 2021 to approximately RMB294.8 million for the six months ended June 30, 2022, which was mainly attributable to the increase in revenue generated from *Football Champion* (最佳11人 — 冠軍球會) by approximately RMB123.1 million or 376.5%, from approximately RMB32.7 million for the six months ended June 30, 2021 to approximately RMB155.8 million for the six months ended June 30, 2022 as our Group has been expanding *Football Champion* (最佳11人 — 冠軍球會) to overseas markets, such as Hong Kong, South Korea, Vietnam and Japan since the second half of 2021 which significantly boosted the total registered users, average DAUs, average MAUs, average MPUs and ARPPU during the period. Further details of the operating data of *Football Champion* (最佳11人 — 冠軍球會) during the Track Record Period, please see the section headed “Business — Our Game Portfolio — Existing game portfolio” of this document. During the six months ended June 30, 2022, the revenue generated from *NBA Basketball Master* (NBA籃球大師) also experienced a slight increase by approximately RMB3.0 million or 3.7% to approximately RMB83.7 million from approximately RMB80.7 million for the corresponding period in 2021. Such contributions to the increase in our revenue were partially offset by the decrease in revenue generated from *Football Master* (足球大師) by approximately RMB12.2 million, or 18.1% from approximately RMB67.5 million for the six months ended June 30, 2021 to approximately RMB55.3 million for the six months ended June 30, 2022 as our Group devoted less advertising and marketing expenses to retaining the inactive and less loyal users with low paying propensity and purchasing capability of the game at the later period of stable and mature stage of the game’s lifecycle. Despite the decrease in revenue generated from the game, the ARPPU of *Football Master* (足球大師) maintained its continuous growth to RMB1,442 during the six months ended June 30, 2022 when compared with that of RMB1,371 in 2021.

Cost of revenue

Our costs of revenue increased by approximately RMB47.6 million, or 48.4%, from approximately RMB98.3 million for the six months ended June 30, 2021 to approximately RMB145.9 million for the six months ended June 30, 2022. The increase in cost of revenue was primarily attributable to (i) the increase of approximately RMB33.1 million, or 47.8% of our commission fee payable to the Platforms which was in line with our growth in revenue, primarily attributable to the introduction of *Football Champion* (最佳11人 — 冠軍球會) in overseas markets such as Hong Kong, South Korea, Vietnam and Japan since the second half of 2021 which significantly stimulated the average MPUs and ARPPU of the game for the six months ended June 30, 2022; (ii) the increase by approximately RMB10.6 million, or 55.3% of our license fees which was in line with our growth in revenue as some of our IP licensing arrangements provide for revenue sharing from our income generated; (iii) the increase by approximately RMB2.2 million, or 59.7% of our staff costs, mainly due to the increase in our number of staff in maintenance, operation and customer service departments during the six months ended June 30, 2022; and (iv) the increase by approximately RMB2.3 million, or 81.0% of our server usage expenses which was primarily attributable to the expansion of our cloud server service capacity to support the expected surge in demand for server usage following the introduction of our existing games and new games in the pipeline in the PRC and overseas markets. The increase was partially offset by the decrease in revenue sharing to third party publishers by approximately RMB1.0 million or 30.2% due to our less collaboration with the third party publishers during the six months ended June 30, 2022.

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Gross profit and gross profit margin

For the reasons mentioned above, our gross profit increased by approximately RMB66.3 million, or 80.3%, from approximately RMB82.6 million for the six months ended June 30, 2021 to approximately RMB148.9 million for the six months ended June 30, 2022. Our gross profit margin increased from approximately 45.7% for the six months ended June 30, 2021 to approximately 50.5% for the six months ended June 30, 2022. The increase in gross profit margin was primarily due to our successful expansion into the overseas markets, in particular the introduction of *Football Champion* (最佳11人 — 冠軍球會) in Hong Kong, South Korea, Vietnam and Japan since the second half of 2021. As mentioned above, commission fee to the Platforms constituted the largest component among our cost of revenue, representing approximately 70.1% of our total cost of revenue during the six months ended June 30, 2022. Therefore, coupled with the increase in our proportion of income generated from the overseas markets and the comparatively lower commission rate charged by overseas distribution platforms than the local distribution platforms in the PRC by approximately 30 basis points, our growth of commission fee to the Platforms was relatively lower than the growth of revenue for the six months ended June 30, 2022, contributing to the improvement of our gross profit margin.

Other gains/(losses), net

Our other net gains increased by approximately RMB0.3 million, or 42.9%, from approximately RMB0.7 million for the six months ended June 30, 2021 to approximately RMB1.0 million for the six months ended June 30, 2022, mainly because we recorded an increase in net exchange gain by approximately RMB2.1 million for the six months ended June 30, 2022 as compared with the corresponding period in 2021, partially offset by a net fair value loss on the Pre-[REDACTED] Convertible Bonds of approximately RMB1.3 million (calculated based on netting off the fair value loss on the Pre-[REDACTED] Convertible Bonds measured at fair value through profit or loss by the fair value gain on extension of the Pre-[REDACTED] Convertible Bonds measured at fair value through profit or loss, resulting from the extension of the maturity date of the Pre-[REDACTED] Convertible Bonds from June 6, 2022 to June 6, 2023 pursuant to the supplemental deed executed between our Company and Garena Ventures on May 31, 2022).

Other income

Our other income increased by approximately RMB2.2 million, or 157.1%, from approximately RMB1.4 million for the six months ended June 30, 2021 to approximately RMB3.6 million for the six months ended June 30, 2022, mainly because (i) we received certain new grants and/or subsidies from the local governmental departments such as a grant of approximately RMB1.5 million from the Shenzhen municipal government to award enterprises with qualified research and development capabilities; and (ii) we received approximately RMB0.4 million from advertising income for the six months ended June 30, 2022.

FINANCIAL INFORMATION

Selling and marketing expenses

Our selling and marketing expenses increased by approximately RMB41.4 million, or 129.4%, from approximately RMB32.0 million for the six months ended June 30, 2021 to approximately RMB73.4 million for the six months ended June 30, 2022, which was primarily attributable to (i) the increase in advertising and marketing expenses of approximately RMB39.4 million, or 139.2% as we carried out massive online advertising activities during the six months ended June 30, 2022 for promoting our Football Champion (最佳11人 — 冠軍球會) in the overseas markets such as Hong Kong, South Korea, Vietnam and Japan. Our major online advertising activities to promote *Football Champion* (最佳11人 — 冠軍球會) in overseas markets during the six months ended June 30, 2022 include massive video advertisements on a continuous basis throughout the entire period on (i) Facebook of approximately RMB11.2 million which generated approximately 513.1 million impressions (the number of times the advertisement is shown on-screen); (ii) Google of approximately RMB22.5 million which generated approximately 880.0 million impressions; (iii) Tiktok of approximately RMB2.7 million which generated approximately 316.3 million impressions; and (iv) Twitter of approximately RMB1.5 million which generated approximately 220.1 million impressions; and (ii) the increase in employee benefits and salaries of our selling and marketing staff of approximately RMB1.5 million or 44.2% following the expansion of our sales and marketing team from 34 staff for the six months ended June 30, 2021 to 46 staff for the six months ended June 30, 2022.

General and administrative expenses

Our general and administrative expenses decreased by approximately RMB4.6 million, or 20.8%, from approximately RMB22.1 million for the six months ended June 30, 2021 to approximately RMB17.5 million for the six months ended June 30, 2022, which was primarily attributable to the decrease in [REDACTED] expenses of approximately RMB[REDACTED], or [REDACTED], partially offset by (i) the increase in employee benefits and salaries of our general and administrative staff by approximately RMB1.0 million, or 20.0%, mainly attributable to the increase in relevant staff bonus declared during the period; and (ii) the increase in tax and levies of approximately RMB0.8 million, or 86.5%, mainly due to the increase of the withholding tax incurred for the royalty fees payable to the relevant IP right holders, resulting from the increase in revenue for the six months ended June 30, 2022.

Research and development expenses

Our research and development expenses increased by approximately RMB11.8 million, or 45.9%, from approximately RMB25.7 million for the six months ended June 30, 2021 to approximately RMB37.5 million for the six months ended June 30, 2022, which was primarily attributable to (i) the increase in employee benefits and salaries of our research and development staff of approximately RMB9.1 million, or 38.5% primarily due to the increase in the number of our research and development staff from 163 for the six months ended June 30, 2021 to 203 for the six months ended June 30, 2022 for the development of our new mobile sports games in the pipeline and the salary increment offered by us to reward our talented research and development personnel; (ii) the increase in depreciation of right-of-use assets of approximately RMB1.2 million, or 152.5% as we signed a new lease agreement during the six months ended June 30, 2022; and (iii) the increase in graphic design expenses and dubbing fee of approximately RMB1.2 million, or 200.5% to support the development of our new mobile sports games.

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Reversal of impairment loss/Net impairment losses on financial assets

We recorded a reversal of impairment loss on financial assets of approximately RMB2,000 for the six months ended June 30, 2021, while we recorded net impairment losses on financial assets of approximately RMB1.8 million for the six months ended June 30, 2022 because we made provision for impairment of trade receivables regarding an overdue amount by one of our payment vendors of approximately RMB1.8 million during the period. We have taken measures to recover the outstanding amount by serving payment demand request on the payment vendor and our finance team closely monitored the collectability of this payment and will continue to communicate with the payment vendor to obtain updates of its anticipated settlement.

Finance income, net

Our net finance income increased by approximately RMB0.4 million, or 200.0%, from approximately RMB0.2 million for the six months ended June 30, 2021 to approximately RMB0.6 million for the six months ended June 30, 2022, which was primarily attributable to the increase in interest income from bank deposits of approximately RMB0.5 million, or 89.9%.

Profit before income tax expense

Our profit before income tax expense increased by approximately RMB18.7 million, or 359.6%, from approximately RMB5.2 million for the six months ended June 30, 2021 to approximately RMB23.9 million for the six months ended June 30, 2022, which was primarily due to the cumulative effect of (i) the significant increase in our gross profit by approximately RMB66.3 million, mainly attributable to the successful expansion of our *Football Champion* (最佳11人 — 冠軍球會) into other overseas markets; and (ii) the decrease in our general and administrative expenses by approximately RMB4.6 million mainly due to the decrease in our [REDACTED] expenses, partially offset by the increase of our selling and marketing expenses by approximately RMB41.4 million mainly attributable to our increased advertising and marketing expenses to promote *Football Champion* (最佳11人 — 冠軍球會) in overseas markets and the increase in our research and development expenses by approximately RMB11.8 million primarily due to our efforts to strengthen our research and development capabilities during the six months ended June 30, 2022.

Income tax expense/credit

We recorded income tax credit of approximately RMB1.9 million for the six months ended June 30, 2021 as a result of an one-off increase in deferred tax assets, arising from the change of CIT rate applicable to Wangchen Technology from 15% in 2020 to 25% in 2021. As WFOE has undertaken the key functional activities related to the game design and development from Wangchen Technology since July 1, 2021 upon the implementation of the Contractual Arrangements, Wangchen Technology is no longer subject to a reduced preferential CIT rate of 15%. For the six months ended June 30, 2022, we recorded income tax expense of approximately RMB3.6 million mainly due to the increase in profit before income tax by approximately RMB18.7 million, or 359.6% for the six months ended June 30, 2022 as compared with the corresponding period in 2021.

Profit for the period

For the reasons above, our profit for the period increased by approximately RMB13.3 million, or 190.0%, from approximately RMB7.0 million for the six months ended June 30, 2021 to approximately RMB20.3 million for the six months ended June 30, 2022, primarily due to the increase in profit before income tax as mentioned above.

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Year ended December 31, 2021 compared to Year ended December 31, 2020

Revenue

Our revenue increased by approximately RMB55.2 million, or 13.6%, from approximately RMB404.7 million for the year ended December 31, 2020 to approximately RMB459.9 million for the year ended December 31, 2021, which was mainly attributable to the increase in revenue generated from *Football Champion* (最佳11人 — 冠軍球會) by approximately RMB106.8 million, or 258.0%, from approximately RMB41.4 million for the year ended December 31, 2020 to approximately RMB148.2 million for the year ended December 31, 2021 as (i) *Football Champion* (最佳11人 — 冠軍球會) being a game at the early growth stage of its lifecycle after its launch in April 2020, experienced rapid growth in its total registered users, average DAUs, average MAUs, average MPUs and ARPPU from 2020 to 2021; and (ii) our Group has been expanding *Football Champion* (最佳11人 — 冠軍球會) in overseas markets such as Hong Kong, South Korea and Vietnam during August and September 2021. Further details of the operating data of *Football Champion* (最佳11人 — 冠軍球會) during the Track Record Period, please see the section headed “Business — Our Game Portfolio — Existing game portfolio” of this document. Such increase in revenue was partially offset by (i) the decrease of revenue generated from *NBA Basketball Master* (NBA 籃球大師) by approximately RMB39.8 million, or 18.4% from approximately RMB216.5 million for the year ended December 31, 2020 to approximately RMB176.7 million for the year ended December 31, 2021 as our Group had allocated more resources on the preparation and launching of various foreign language versions of *Football Champion* (最佳11人 — 冠軍球會) as well as planning our new mobile sports games in the pipeline during the year of 2021, thus diverting our management attention and resources on devising more monetization strategies to convert more non-paying users of *NBA Basketball Master* (NBA 籃球大師) into paying users. In addition, as our Group will continuously optimize user experience, certain new gameplay introduced to the game during the first half of the year gradually realized its intended payoff during the second half of the year of 2021; and (ii) the decrease of revenue generated from *Football Master* (足球大師) by approximately RMB10.4 million, or 7.2% from approximately RMB145.4 million for the year ended December 31, 2020 to approximately RMB135.0 million for the year ended December 31, 2021 as our Group intended to incur less advertising and marketing expenses on the game to retain the inactive and less loyal users with low paying propensity and purchasing capability at the later period of stable and mature stage of its lifecycle.

Cost of revenue

Our cost of revenue increased by approximately RMB13.9 million, or 6.2%, from approximately RMB224.4 million for the year ended December 31, 2020 to approximately RMB238.3 million for the year ended December 31, 2021. The increase in cost of revenue was primarily attributable to (i) an increase of approximately RMB10.8 million, or 6.8% of our commission fee payable to the Platforms which was in line with our growth of revenue, primarily attributable to the introduction of *Football Champion* (最佳11人 — 冠軍球會) in overseas markets such as Hong Kong, South Korea and Vietnam which significantly stimulated the average MPUs and ARPPU of the game during 2021; (ii) the increase by approximately RMB2.8 million, or 60.3%, of our server usage expenses which was mainly attributable to the expansion of our cloud server service capacity in order to cope with our overseas market expansion plan to support the expected surge in demand for server usage following the introduction of our existing games and new games in the pipeline in the overseas markets; and (iii) the increase by approximately RMB2.6 million, or 43.6% of our staff costs, mainly due to the increase in our number of staff in maintenance, operation and

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customer service departments in 2021. The increase was partially offset by the decrease in revenue sharing to third party publisher by approximately RMB2.4 million or 30.1% due to our less collaboration with the third party publishers in 2021.

Gross profit and gross profit margin

For the reasons mentioned above, our gross profit increased by approximately RMB41.1 million, or 22.8%, from approximately RMB180.4 million for the year ended December 31, 2020 to approximately RMB221.5 million for the year ended December 31, 2021. Our gross profit margin increased from approximately 44.6% for the year ended December 31, 2020 to 48.2% for the year ended December 31, 2021. The increase in gross profit margin was primarily due to our successful expansion into the overseas markets during the year ended December 31, 2021. Coupled with the increase in our proportion of income generated from the overseas markets for the year ended December 31, 2021 and the comparatively lower commission rate charged by overseas distribution platforms than the local distribution platforms in the PRC by approximately 30 basis points, our growth of commission fee to the Platforms was relatively lower than the growth of revenue for the year ended December 31, 2021.

Other gains/(losses), net

Our other net losses decreased by approximately RMB3.8 million from approximately RMB4.9 million for the year ended December 31, 2020 to approximately RMB1.1 million for the year ended December 31, 2021 mainly due to that we recorded a net exchange gain of approximately RMB0.1 million in 2021 as compared with a net exchange loss of approximately RMB5.2 million in 2020. During the year ended December 31, 2021, we recorded a fair value loss on a financial liability measured at fair value through profit or loss by approximately RMB1.5 million, resulting from the fair value loss of the Pre-[REDACTED] Convertible Bonds.

Other income

Our other income increased by approximately RMB1.4 million, or 73.7%, from approximately RMB1.9 million for the year ended December 31, 2020 to approximately RMB3.3 million for the year ended December 31, 2021, mainly because we received certain new grants and/or subsidies from the local governmental departments such as a grant of RMB0.8 million from the Ministry of Industry and Information Technology to support enterprises to enhance service or product quality and brand awareness and a subsidy of approximately RMB0.8 million from Shenzhen Science and Technology Committee to support the research and development activities of high-tech and innovation companies in Shenzhen.

Selling and marketing expenses

Our selling and marketing expenses increased by approximately RMB22.7 million, or 36.1%, from approximately RMB62.9 million for the year ended December 31, 2020 to approximately RMB85.6 million for the year ended December 31, 2021, which was primarily attributable to (i) the increase of advertising and marketing expenses of approximately RMB20.1 million, or 35.8% due to the additional marketing efforts exerted, such as (i) we engaged a game ambassador after the Vietnamese version of *Football Champion* (最佳11人 — 冠軍球會) was launched in August 2021; and (ii) we carried out massive online advertising activities in the second half of 2021 for the launch of foreign language versions of *Football Champion* (最佳11人 — 冠軍球會) in Hong Kong, Vietnam and South Korea during August and September 2021; and (iii) the increase of employee benefits and

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salaries of approximately RMB2.0 million, or 33.7%, following the expansion of our selling and marketing team from 33 staff for the year ended December 31, 2020 to 41 staff for the year ended December 31, 2021.

General and administrative expenses

Our general and administrative expenses increased by approximately RMB13.5 million, or 64.0%, from approximately RMB21.1 million for the year ended December 31, 2020 to approximately RMB34.6 million for the year ended December 31, 2021. The increase was primarily attributable to (i) the increase of [REDACTED] expenses of approximately RMB[REDACTED], or [REDACTED] for the preparation of the [REDACTED]; and (ii) the increase of other professional service fees and auditors’ remunerations of approximately RMB1.1 million, or 144.5%.

Research and development expenses

Our research and development expenses increased by approximately RMB17.5 million, or 38.7%, from RMB45.2 million for the year ended December 31, 2020 to approximately RMB62.7 million for the year ended December 31, 2021. The increase was primarily attributable to (i) the increase of employee benefits and salaries of approximately RMB14.8 million, or 36.2% due to the increase in number of research and development staff from 169 for the year ended December 31, 2020 to 186 for the year ended December 31, 2021 and the increase in the average salary of our research and development staff to maintain our research and development capabilities; (ii) the increase of graphic design expense and dubbing fee of approximately RMB1.5 million, or approximately 180.7% to support the development of our new mobile sports games; and (iii) the increase of our depreciation of right-of-use assets by approximately RMB0.8 million or 46.0% as we signed a new lease agreement for our new office in Qianhai during 2021.

Reversal of impairment loss/Net impairment losses on financial assets

We recorded a reversal of impairment loss on financial assets of approximately RMB0.2 million for the year ended December 31, 2021 as compared to the net impairment losses of approximately RMB3.8 million for the year ended December 31, 2020, primarily because we made provision for impairment of the overdue amount by one of our historical major suppliers during the year ended December 31, 2020, but there was no such provision made for the year ended December 31, 2021. Further details of the overdue amount by one of our historical major suppliers are set out in the paragraphs headed “Period to Period Comparison of Results of Operations — Year ended December 31, 2020 compared to Year ended December 31, 2019 — Net impairment losses on financial assets” in this section.

Finance income, net

Our net finance income increased by approximately RMB0.3 million, or 75.0%, from approximately RMB0.4 million for the year ended December 31, 2020 to approximately RMB0.7 million for the year ended December 31, 2021, primarily attributable to the increase of interest income from bank deposits of approximately RMB0.5 million, or 45.9%.

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Profit before income tax expense

Our profit before income tax expense decreased by approximately RMB3.1 million, or 6.9% from approximately RMB44.8 million for the year ended December 31, 2020 to approximately RMB41.7 million for the year ended December 31, 2021, primarily due to the cumulative effect of (i) the increase of selling and marketing expenses by approximately RMB22.7 million mainly contributed by our increased advertising and marketing expenses to support the launch of *Football Champion* (最佳11人 — 冠軍球會) in overseas markets; (ii) the increase of research and development expenses by approximately RMB17.5 million primarily due to the increase in the employee benefits and salaries of our research and development staff; and (iii) increase of general and administrative expenses by approximately RMB13.5 million primarily due to the increase of [REDACTED] expenses, partially offset by the increase in gross profit by approximately RMB41.1 million mainly due to our successful expansion of *Football Champion* (最佳11人 — 冠軍球會) in the overseas markets during the year ended December 31, 2021.

Income tax expense

Our income tax expense decreased by approximately RMB1.8 million, or 43.9%, from approximately RMB4.1 million for the year ended December 31, 2020 to approximately RMB2.3 million for the year ended December 31, 2021, which was due to the tax effect of the Super Deduction which increased by approximately RMB3.4 million, or 69.0% from approximately RMB4.9 million for the year ended December 31, 2020 to approximately RMB8.3 million for the year ended December 31, 2021 as our qualified research and development expenses increased.

Profit for the year

For the reasons above, our profit for the year decreased by approximately RMB1.3 million, or 3.2%, from approximately RMB40.7 million for the year ended December 31, 2020 to approximately RMB39.4 million for the year ended December 31, 2021. Our net profit margin decreased from approximately 10.1% in 2020 to 8.6% in 2021, primarily due to the decrease in profit before income tax as mentioned above.

Year ended December 31, 2020 compared to Year ended December 31, 2019

Revenue

Our revenue increased by approximately RMB26.1 million, or 6.9%, from approximately RMB378.6 million for the year ended December 31, 2019 to approximately RMB404.7 million for the year ended December 31, 2020, which was attributable to the combined effects of (i) the revenue generated from *Football Champion* (最佳11人 — 冠軍球會) of approximately RMB41.4 million for the year ended December 31, 2020 since its launch in April 2020 and (ii) the increase in revenue generated from *NBA Basketball Master* (NBA籃球大師) by approximately RMB20.6 million, or 10.5%, from approximately RMB195.9 million for the year ended December 31, 2019 to approximately RMB216.5 million for the year ended December 31, 2020 following our successful securing of Carmelo Anthony, a famous basketball NBA player as the game’s ambassador and the corresponding launch of new in-game promotional events and certain in-game updates to enhance the game experience of users, which was partially offset by (i) the decrease in revenue generated from *Football Master* (足球大師) by approximately RMB29.3 million, or 16.8% from approximately RMB174.7 million for the year ended December 31, 2019 to approximately RMB145.4 million for the year ended December 31, 2020 as our Group devoted less marketing efforts on the game during the year and (ii) the decrease in revenue generated from *Chinese Super League* (冠軍中超OL) by

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approximately RMB6.3 million, from approximately RMB7.2 million for the year ended December 31, 2019 to approximately RMB0.9 million for the year ended December 31, 2020 as the game was discontinued in August 2020.

Cost of revenue

Our cost of revenue increased by approximately RMB16.9 million, or 8.1%, from approximately RMB207.5 million for the year ended December 31, 2019 to approximately RMB224.4 million for the year ended December 31, 2020. The increase in cost of revenue was primarily attributable to the launch of *Football Champion* (最佳11人 — 冠軍球會) in April 2020 which has contributed to (i) an increase by approximately RMB14.4 million, or 10.1%, of our commission fee payable to the Platforms; (ii) an increase by approximately RMB7.6 million, or 18.9%, of our license fees; and (iii) an increase by approximately RMB0.9 million, or 23.4%, of our server usage expenses. This increase is partially offset by the decrease in revenue sharing with third-party publishers by approximately RMB6.7 million, or 45.3%, from approximately RMB14.8 million for the year ended December 31, 2019 to approximately RMB8.1 million for the year ended December 31, 2020 due to the discontinuation of *Chinese Super League* (冠軍中超OL) in August 2020.

Gross profit and gross profit margin

For the reasons mentioned above, our gross profit increased by approximately RMB9.3 million, or 5.4%, from approximately RMB171.1 million for the year ended December 31, 2019 to approximately RMB180.4 million for the year ended December 31, 2020. Our gross profit margin remained relatively stable at 45.2% and 44.6% for the two years ended December 31, 2019 and 2020, respectively.

Other gains/(losses), net

We recorded other net gains of approximately RMB0.7 million for the year ended December 31, 2019 as compared to other net losses of approximately RMB4.9 million for the year ended December 31, 2020. This was primarily due to the incurrence of exchange net loss of approximately RMB5.2 million in 2020 mainly due to the exchange rate fluctuation between US\$ and RMB for our U.S. dollar cash deposits equivalent to an amount of approximately RMB67.4 million.

Other income

Our other income increased by approximately RMB0.9 million, to approximately RMB1.9 million for the year ended December 31, 2020 from approximately RMB1.0 million for the year ended December 31, 2019 as we received certain new grants and/or subsidies from the local governmental departments.

Selling and marketing expenses

Our selling and marketing expenses increased by approximately RMB2.6 million, or 4.3%, from approximately RMB60.3 million for the year ended December 31, 2019 to approximately RMB62.9 million for the year ended December 31, 2020, which was primarily attributable to (i) the increase in advertising and marketing expenses by approximately RMB1.8 million, as we spent additional marketing efforts to advertise our games by inviting Fernando Torres and Carmelo Anthony to become our brand ambassadors to appear on our social media channels and other video

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streaming platforms; and (ii) the increase in employee benefits and salaries by approximately RMB0.8 million, following the increase of our sales and marketing team from 22 for the year ended December 31, 2019 to 29 for the year ended December 31, 2020.

General and administrative expenses

Our general and administrative expenses decreased by approximately RMB2.1 million, or 9.1%, from approximately RMB23.2 million for the year ended December 31, 2019 to approximately RMB21.1 million for the year ended December 31, 2020, which was primarily attributable to (i) the decrease of amortisation of intangible assets by approximately RMB3.2 million as *Football Champion* (最佳11人 — 冠軍球會) had been launched since April 2020, and with no new IP licensing agreements signed for the remainder of the year for unlaunched games; and (ii) a decrease by approximately RMB0.8 million in other legal and professional consultancy fees, partially offset by an increase in employee benefits and salaries for our general and administrative staff by approximately RMB1.5 million.

Research and development expenses

Our research and development expenses increased by approximately RMB5.1 million, or 12.7%, from approximately RMB40.1 million for the year ended December 31, 2019 to approximately RMB45.2 million for the year ended December 31, 2020, which was primarily attributable to an increase by approximately RMB5.0 million in employee benefits and salaries for our research and development staff.

Net impairment losses on financial assets

Our net impairment losses on financial assets increased by approximately RMB3.7 million from approximately RMB0.1 million for the year ended December 31, 2019 to RMB3.8 million for the year ended December 31, 2020 primarily due to the provision for impairment of trade receivables from an overdue payment by one of our historical major suppliers, of an unpaid amount owed to our Company of approximately RMB3.7 million in 2020. As such amount has been outstanding for a certain period of time in breach of the cooperation agreement between such supplier and us, we took measures to recover the outstanding amount of approximately RMB3.7 million by serving repeated payment demand requests on such supplier. Our finance team has closely monitored the collectability of this payment and continues to communicate with such supplier to obtain updates of its anticipated settlement. However, as of December 31, 2020, such supplier still failed to comply with its proposed settlement schedule and we have not recovered the outstanding amount from such supplier. In view of this, we made provision for impairment of this amount for the year ended December 31, 2020. During the Track Record Period, we have entered into third-party publishing agreements with such supplier for publishing *Football Master* (足球大師), *NBA Basketball Master* (NBA籃球大師) and *Chinese Super League* (冠軍中超OL) through their platforms. Upon expiration of the aforementioned third-party publishing agreements, the Directors confirm that our Group does not intend to renew or extend such agreements nor continue to engage in business relationships with such supplier.

Finance income, net

Our net finance income decreased by approximately RMB1.1 million from approximately RMB1.5 million for the year ended December 31, 2019 to approximately RMB0.4 million for the year ended December 31, 2020, primarily attributable to (i) the change from a net interest income on

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interest accretion of licence fees and royalties payable in 2019 to a net interest expense by interest accretion of licence fees and royalties payable in 2020 and (ii) a decrease in interest income from bank deposits of approximately RMB0.2 million.

Profit before income tax expense

Our profit before income tax expense decreased by approximately RMB5.7 million, or 11.3% from approximately RMB50.5 million for the year ended December 31, 2019 to approximately RMB44.8 million for the year ended December 31, 2020, primarily due to the cumulative effect of (i) the incurrence of exchange net loss of approximately RMB5.2 million as a result of exchange rate fluctuation between US\$ and RMB; (ii) increase of research and development expenses by approximately RMB5.1 million primarily due to an increase by approximately RMB5.0 million in employee benefits and salaries for our research and development staff; and (iii) and increase in net impairment losses on financial assets of approximately RMB3.7 million due to the provision for impairment of trade receivables from an overdue payment by one of our historical major suppliers of an unpaid amount owed to our Company of approximately RMB3.7 million in 2020, partially offset by an increase in gross profit by approximately RMB9.3 million mainly due to the launch of *Football Champion* (最佳11人 — 冠軍球會) during the year ended December 31, 2020.

Income tax expense

Our income tax expense decreased by approximately RMB0.8 million, or 16.3%, from approximately RMB4.9 million for the year ended December 31, 2019 to approximately RMB4.1 million for the year ended December 31, 2020, which was due to the decrease in profit before tax in 2020.

Profit for the year

For the reasons above, our profit for the year decreased by approximately RMB5.0 million, or 10.9%, from approximately RMB45.7 million for the year ended December 31, 2019 to approximately RMB40.7 million for the year ended December 31, 2020. Our net profit margin decreased slightly from approximately 12.1% in 2019 to 10.1% in 2020, primarily due to the decrease in profit before income tax expense as mentioned above.

LIQUIDITY AND CAPITAL RESOURCES

During the Track Record Period and up to the Latest Practicable Date, we have funded our cash requirements principally from cash generated from our operating activities and our cash and bank balances comprising the [REDACTED] from the Pre-[REDACTED] Convertible Bonds subscribed by Gavena Ventures. We had cash and cash equivalents of approximately RMB145.0 million, RMB163.7 million, RMB188.4 million and RMB188.5 million as at December 31, 2019, 2020 and 2021 and June 30, 2022, respectively. For the purpose of presentation in the consolidated statements of cash flows, our cash and cash equivalents comprise cash on hand and demand deposits, which are subject to an insignificant risk of changes in value. We generally deposit our excess cash in interest-bearing bank accounts and current accounts.

We require cash primarily for our operation and general working capital needs. Going forward, we believe that our liquidity requirements will be satisfied by using a combination of cash generated from operating activities, our existing cash and bank balances, the [REDACTED] received from the [REDACTED] and other possible equity and debt financings raised from the capital markets from time to time and as and when appropriate.

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Cash flow

The following table sets forth a summary of our cash flows for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Net cash generated from operating activities	90,633	77,715	67,831	2,291	11,835
Net cash used in investing activities	(4,348)	(30,179)	(18,484)	(20,805)	(8,854)
Net cash used in financing activities	(12,012)	(23,174)	(23,326)	(19,741)	(4,265)
Net increase/(decrease) in cash and cash equivalents	74,273	24,362	26,021	(38,255)	(1,284)
Cash and cash equivalents at end of the year/period	145,032	163,723	188,410	124,776	188,493

Net cash generated from operating activities

Our primary source of cash generated from operating activities consists of revenue generated from our games. Our cash used in operating activities are mainly used to fund the development, publishing and operation of our games.

For the six months ended June 30, 2022, our net cash generated from operating activities was approximately RMB11.8 million, which primarily reflected the combined effects of (i) our profit before income tax of approximately RMB23.9 million; (ii) adjustment from amortisation of intangible assets of approximately RMB9.0 million mainly attributable to the amortisation under our existing and new IP licensing agreements such as NBA and NBPA for *NBA Basketball Master* (NBA籃球大師) as well as FIFPro for *Football Master* (足球大師) and *Football Champion* (最佳11人 — 冠軍球會); (iii) changes in working capital, which primarily comprised an increase in trade receivables, prepayments and other receivables of approximately RMB28.6 million, and an increase in contract liabilities of approximately RMB7.0 million; and (iv) the depreciation of right-of-use assets of approximately RMB3.1 million primarily due to the new lease agreement signed during the period, which were partially offset by approximately RMB4.2 million for income tax paid.

For the year ended December 31, 2021, our net cash generated from operating activities was approximately RMB67.8 million, which primarily reflected the combined effects of (i) our profit before income tax of approximately RMB41.7 million; (ii) adjustment from amortisation of intangible assets of approximately RMB19.4 million mainly attributable to the amortisation under our existing and new IP licensing agreements, such as NBA and NBPA for *NBA Basketball Master* (NBA籃球大師) as well as FIFPro for *Football Master* (足球大師) and *Football Champion* (最佳11人 — 冠軍球會); (iii) changes in working capital, which primarily comprised an increase of trade receivables, prepayments and other receivables of approximately RMB16.8 million, an increase of trade and other payables of approximately RMB10.4 million and an increase of contract liabilities of approximately RMB6.9 million; (iv) the depreciation of right-of-use assets of approximately RMB4.1 million primarily due to the new lease agreement for our new office in Qianhai signed during 2021; and (v) adjustment for exchange difference of approximately RMB3.1 million, which were partially offset by approximately RMB3.6 million for income tax paid.

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For the six months ended June 30, 2021, our net cash generated from operating activities was approximately RMB2.3 million, which primarily reflected the combined effects of (i) our profit before income tax of approximately RMB5.2 million; (ii) adjustment from amortisation of intangible assets of approximately RMB9.7 million mainly attributable to the amortisation under our existing and new IP licensing agreements, such as NBA and NBPA for *NBA Basketball Master* (*NBA籃球大師*) as well as FIFPro for *Football Master* (*足球大師*) and *Football Champion* (*最佳11人 — 冠軍球會*); (iii) changes in working capital, which primarily comprised an increase of trade receivables, prepayments and other receivables of approximately RMB13.4 million, an increase of trade and other payables of approximately RMB1.1 million; (iv) the depreciation of right-of-use assets of approximately RMB1.2 million; and (v) adjustment for exchange difference of approximately RMB1.4 million, which were partially offset by approximately RMB3.4 million for income tax paid.

For the year ended December 31, 2020, our net cash generated from operating activities was approximately RMB77.7 million, which primarily reflected the combined effects of (i) our profit before income tax of approximately RMB44.8 million; (ii) adjustment for amortisation of intangible assets of approximately RMB19.3 million as we renewed our IP licensing agreements with FIFPro for *Football Master* (*足球大師*) and we entered into IP licensing agreements with two football clubs for *Football Champion* (*最佳11人 — 冠軍球會*) and *Football Master* (*足球大師*); (iii) changes in working capital, which primarily comprised a decrease of trade receivables, prepayments and other receivable of approximately RMB4.2 million and an increase of contract liabilities of approximately RMB8.4 million; and (iv) adjustment for exchange difference of approximately RMB6.7 million, which were partially offset by approximately RMB7.2 million for income tax paid.

For the year ended December 31, 2019, we had net cash generated from operating activities of approximately RMB90.6 million, which was primarily contributed by (i) our profit before income tax of approximately RMB50.5 million; (ii) adjustment for amortisation of intangible assets of approximately RMB18.5 million as we renewed our IP licensing agreements with NBA and NBPA for *NBA Basketball Master* (*NBA籃球大師*) and entered into a IP licensing agreement with a new football club for *Football Champion* (*最佳11人 — 冠軍球會*); and (iii) changes in working capital, which primarily comprised a decrease of trade receivables, prepayments and other receivable of approximately RMB12.2 million and an increase of trade and other payable of approximately RMB14.9 million, which were partially offset by approximately RMB5.4 million for income tax paid.

Net cash used in investing activities

Our net cash used in investing activities primarily reflects cash used for purchases of financial assets at fair value through profit or loss, and purchases of property, plant and equipment, purchases of intangible assets; offset by proceeds from disposal of financial assets at fair value through profit or loss.

For the six months ended June 30, 2022, our net cash used in investing activities was approximately RMB8.9 million, which primarily reflected the combined effects of (i) purchase of financial assets at fair value through profit or loss of RMB19.8 million due to investments in wealth management products; (ii) purchase of intangible assets of approximately RMB6.5 million representing the IP rights obtained from sports league, sports associations and sports clubs to use their trademarks and products, including but not limited to the right to use their brand name, image of stadium, brand's application manual, jersey, names and images of individual players; and (iii) purchases of property, plant and equipment of approximately RMB2.5 million, which were partially offset by the proceeds from disposal of financial assets at fair value through profit or loss of approximately RMB19.8 million due to the sale of the purchased wealth management products during the six months ended June 30, 2022.

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For the year ended December 31, 2021, our net cash used in investing activities was approximately RMB18.5 million, which primarily reflected the combined effects of purchase of financial assets at fair value through profit or loss of RMB111.5 million due to investments in wealth management products, purchase of intangible assets of approximately RMB19.5 million representing the IP rights from renowned sports league, sports associations and sports clubs to use their trademarks and products, including but not limited to the right to use their brand name, image of stadium, brand’s application manual, jersey, names and images of individual players and purchases of property, plant and equipment of approximately RMB4.6 million, which were partially offset by the proceeds from disposal of financial assets at fair value through profit or loss of approximately RMB113.0 million due to the sale of the purchased wealth management products during the year and repayments from related parties of RMB4.1 million.

For the six months ended June 30, 2021, our net cash used in investing activities was approximately RMB20.8 million, which primarily reflected the combined effects of (i) purchase of financial assets at fair value through profit or loss of RMB74.6 million due to investments in wealth management products; (ii) purchase of intangible assets of approximately RMB8.5 million representing the IP rights obtained from sports league, sports associations and sports clubs to use their trademarks and products, including but not limited to the rights to use their brand name, image of stadium, brand’s application manual, jersey, names and images of individual players, which were partially offset by the proceeds from disposal of financial assets at fair value through profit or loss of approximately RMB59.8 million due to the sale of the purchased wealth management products during the six months ended June 30, 2021 and repayments from related parties of approximately RMB4.1 million.

For the year ended December 31, 2020, our net cash used in investing activities was approximately RMB30.2 million, which primarily reflected the combined effects of purchase of financial assets at fair value through profit or loss of approximately RMB104.7 million due to investments in wealth management products, purchase of intangible assets of approximately RMB23.6 million representing the IP rights from renowned sports league, sports associations and sports clubs to use their trademarks and products, including but not limited to the right to use their brand name, image of stadium, brand’s application manual, jersey, names and images of individual players, advance to related parties of RMB4.0 million and purchase of property, plant and equipment of approximately RMB2.1 million, which were partially offset by the proceeds from disposal of financial assets at fair value through profit or loss of approximately RMB104.0 million due to the sale of the purchased wealth management products during the year.

For the year ended December 31, 2019, our net cash used in investing activities was approximately RMB4.3 million, which primarily reflected the combined effects of the purchase of financial assets at fair value through profit or loss of approximately RMB55.5 million due to investments in wealth management products and purchase of intangible assets of approximately RMB13.6 million mainly for the IP right licenses from NBA and NBPA of approximately RMB8.0 million and from FIFPro of approximately RMB3.2 million, which were partially offset by the proceeds from disposal of financial assets at fair value through profit or loss of approximately RMB65.8 million due to the sale of the purchased wealth management products during the year.

Net cash used in financing activities

Our cash used in financing activities primarily reflects dividends paid, payment for [REDACTED] expenses and payment for principal elements of lease liabilities which were partially offset by the [REDACTED] from issuance of a financial liability at fair value through profit or loss (i.e. the Pre-[REDACTED] Convertible Bonds).

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For the six months ended June 30, 2022, our net cash used in financing activities was approximately RMB4.3 million, which primarily reflected the combined effects of the payments for principal elements of lease liabilities of approximately RMB2.7 million and payment of [REDACTED] expenses of approximately RMB[REDACTED].

For the year ended December 31, 2021, our net cash used in financing activities was approximately RMB23.3 million, which primarily reflected the combined effects of dividends paid of RMB80.0 million, payments for principal elements of lease liabilities of approximately RMB4.2 million and payment of [REDACTED] expenses of approximately RMB2.9 million, which were partially offset by the [REDACTED] from issuance of Pre-[REDACTED] Convertible Bonds of approximately RMB[REDACTED].

For the six months ended June 30, 2021, our net cash used in financing activities was approximately RMB19.7 million, which primarily reflected the combined effects of dividends paid of RMB80.0 million, payment of [REDACTED] expenses of approximately RMB[REDACTED], which were partially offset by the [REDACTED] from issuance of Pre-[REDACTED] Convertible Bonds of approximately RMB64.2 million.

For the year ended December 31, 2020, our net cash used in financing activities was approximately RMB23.2 million, which primarily reflected the combined effects of dividends paid of RMB20.0 million, payment for principal elements of lease liabilities of approximately RMB2.4 million and payment of [REDACTED] expenses of approximately RMB[REDACTED].

For the year ended December 31, 2019, our net cash used in financing activities was approximately RMB12.0 million, which primarily reflected the combined effects of dividends paid of RMB8.0 million, payment for principal elements of lease liabilities of approximately RMB2.7 million and payment of [REDACTED] expenses of approximately RMB[REDACTED].

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DISCUSSION OF CERTAIN KEY CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

The table below sets forth selected information from our consolidated statements of financial position as of the dates indicated, which have been extracted from our consolidated financial statements included in the Accountant’s Report in Appendix I to this document.

	As at December 31,			As at	As at
	2019	2020	2021	June 30,	October 31,
	RMB'000	RMB'000	RMB'000	2022	2022
	(Audited)	(Audited)	(Audited)	(Audited)	(Unaudited)
Current assets					
Trade receivables	27,392	20,321	35,598	52,251	43,210
Prepayment, deposits and other receivables	8,221	8,535	15,942	18,073	16,571
Current income tax receivables	—	250	567	2,928	688
Amounts due from non-controlling interests	1,865	1,865	1,715	675	675
Amounts due from shareholders	120	48	—	—	—
Amounts due from related parties	232	4,136	36	—	—
Financial assets at fair value through profit or loss	—	999	—	—	7,500
Contract costs	8,723	11,632	13,108	14,870	16,506
Short-term bank deposits	90	85	83	—	—
Cash and cash equivalents	<u>145,032</u>	<u>163,723</u>	<u>188,410</u>	<u>188,493</u>	<u>218,002</u>
	191,675	211,594	255,459	277,290	303,152
Current liabilities					
Trade payables	43,307	41,031	30,617	31,982	38,481
Other payables and accruals	26,690	27,810	39,632	35,202	39,051
Contract liabilities	20,541	28,934	35,853	42,823	47,642
Current income tax liabilities	6,737	3,121	611	3,262	3,691
Lease liabilities	1,737	2,082	4,558	6,736	6,730
Financial liability at fair value through profit or loss	<u>—</u>	<u>—</u>	<u>65,642</u>	<u>66,956</u>	<u>66,956</u>
	<u>99,012</u>	<u>102,978</u>	<u>176,913</u>	<u>186,961</u>	<u>202,551</u>
Net current assets	<u>92,663</u>	<u>108,616</u>	<u>78,546</u>	<u>90,329</u>	<u>100,601</u>

As at December 31, 2019, 2020 and 2021 and June 30, 2022, we had net current assets of approximately RMB92.7 million, RMB108.6 million, RMB78.5 million and RMB90.3 million, respectively.

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Our net current assets increased by approximately RMB15.9 million, or 17.2%, from approximately RMB92.7 million as at December 31, 2019 to approximately RMB108.6 million as at December 31, 2020, primarily due to (i) an increase in cash and cash equivalents by approximately RMB18.7 million generated from the increase in cash from operating activities mainly as a result of our then newly launched game, *Football Champion* (最佳11人 — 冠軍球會) in 2020; (ii) a decrease in current income tax liabilities by approximately RMB3.6 million; and (iii) an increase in contract costs of approximately RMB2.9 million, partially offset by an increase in contract liabilities of approximately RMB8.4 million and a decrease in trade receivables of approximately RMB7.1 million.

Our net current assets decreased by approximately RMB30.1 million, or 27.7%, from approximately RMB108.6 million as at December 31, 2020 to approximately RMB78.5 million as at December 31, 2021, primarily due to (i) the settlement of a dividend of RMB80.0 million declared during 2021; and (ii) an increase in other payables and accruals of approximately RMB11.8 million, partially offset by an increase in trade receivables of approximately RMB15.3 million and an increase in cash and cash equivalents of approximately RMB24.7 million mainly due to revenue generated from our games and the [REDACTED] from the Pre-[REDACTED] Convertible Bonds subscribed by Garena Ventures, an increase in current portion of prepayment, deposits and other receivables of approximately RMB7.4 million as well as a decrease of trade payables of approximately RMB10.4 million.

Our net current assets increased by approximately RMB11.8 million, or 15.0%, from approximately RMB78.5 million as at December 31, 2021 to approximately RMB90.3 million as at June 30, 2022, primarily due to (i) an increase in trade receivables of approximately RMB16.7 million in line with our revenue growth during the period; (ii) an increase in current position of prepayment, deposits and other receivables of approximately RMB2.1 million; (iii) an increase in current income tax receivables of approximately RMB2.4 million; and (iv) a decrease in other payables and accruals of approximately RMB4.4 million, partially offset by an increase in contract liabilities of approximately RMB7.0 million and an increase in current income tax liabilities of approximately RMB2.7 million.

As at October 31, 2022, our unaudited net current assets increased to approximately RMB100.6 million.

Property, plant and equipment

The following table sets out the respective net book amount of our Group’s property, plant and equipment as at the dates as indicated:

		As at December 31,		As at
	2019	2020	2021	June 30,
	RMB'000	RMB'000	RMB'000	2022
				RMB'000
Computers and other equipment	1,590	1,285	1,837	3,123
Furniture & fixtures	220	373	512	700
Leasehold improvement	303	872	2,158	2,082
Total	2,113	2,530	4,507	5,905

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Our Group’s property, plant and equipment mainly consist of computers and other equipment as well as leasehold improvement. The net book amounts of our property, plant and equipment as at December 31, 2019 and 2020 were relatively stable and recorded at approximately RMB2.1 million and RMB2.5 million, respectively. The net book amounts of our property, plant and equipment increased by approximately RMB2.0 million, from approximately RMB2.5 million as at December 31, 2020 to approximately RMB4.5 million as at December 31, 2021 as we signed a new lease agreement for our new office in Qianhai and we increased expenses in computers and other equipment for the use of our new office. The net book amounts of our property, plant and equipment further increased by approximately RMB1.4 million from approximately RMB4.5 million as at December 31, 2021 to approximately RMB5.9 million as at June 30, 2022 since we signed a new lease agreement for our office use and recruited more employees during the six months ended June 30, 2022 and accordingly purchased additional computers and other equipment.

Intangible assets

During the Track Record Period, our intangible assets consist of licenses and software. The following table sets out the respective net book amount of our intangible assets as at the dates indicated:

	As at December 31,			As at
	2019	2020	2021	June 30,
	RMB'000	RMB'000	RMB'000	2022
				RMB'000
Licenses	33,729	25,945	14,727	9,767
Software	<u>300</u>	<u>285</u>	<u>291</u>	<u>1,031</u>
Total	<u>34,029</u>	<u>26,230</u>	<u>15,018</u>	<u>10,798</u>

The net book amounts of our intangible assets decreased by approximately RMB7.8 million from approximately RMB34.0 million as at December 31, 2019 to approximately RMB26.2 million mainly due to the amortisation of existing IP right licenses and no new IP right license was obtained from other sports leagues, sports associations and sports clubs in 2020. The net book amounts of our intangible assets further decreased by approximately RMB11.2 million from approximately RMB26.2 million as at December 31, 2020 to approximately RMB15.0 million as at December 31, 2021 mainly due to a combination of the (i) amortisation of existing IP right licenses; (ii) renewal of the IP right licenses of FIFPro for *Football Champion* (最佳11人 — 冠軍球會) and (iii) new IP right licenses obtained from Paris Saint-Germain. The net book amounts of our intangible assets further decreased by approximately RMB4.2 million from approximately RMB15.0 million as at December 31, 2021 to approximately RMB10.8 million as at June 30, 2022 mainly due to the amortization of existing IP right licenses, mainly from FIFPro, NBA and NBPA, partially offset by the new IP right licenses obtained from Borussia Dortmund for *Football Master* (足球大師) and *Football Champion* (最佳11人 — 冠軍球會) and F.C. Barcelona for *Football Champion* (最佳11人 — 冠軍球會) and the extension of the IP right license from FIFPro for *Football Master* (足球大師) during the six months ended June 30, 2022.

Amortisation expenses in relation to intangible assets were charged in cost of revenue and general and administrative expenses in the consolidated statements of comprehensive income.

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Trade receivables

Our trade receivables mainly comprised the outstanding amounts due from the Platforms and third-party publishers for sale proceeds generated from the sale of in-game tokens and other virtual items to paying users.

The third-party distribution platforms generally settle payments to us by bank remittance and credit periods within one to three months from receipt of our invoice were typically allowed for those platforms with good repayment history during the Track Record Period. The table below sets out a breakdown of our trade receivables as at the dates indicated:

	2019	As at December 31, 2020	2021	As at June 30, 2022
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	28,957	24,310	39,427	57,852
Less: net impairment loss on trade receivables	<u>(1,565)</u>	<u>(3,989)</u>	<u>(3,829)</u>	<u>(5,601)</u>
Trade receivables, net	<u>27,392</u>	<u>20,321</u>	<u>35,598</u>	<u>52,251</u>

Our net trade receivables decreased from approximately RMB27.4 million as at December 31, 2019 to RMB20.3 million as at December 31, 2020, due to (i) the early settlement of approximately RMB1.9 million trade receivables from Supplier C; and (ii) the provision for trade receivables impairment for one of our historical major suppliers of an overdue amount owed to us in the sum of approximately RMB3.7 million. Our net trade receivables increased from approximately RMB20.3 million as at December 31, 2020 to approximately RMB35.6 million as at December 31, 2021, mainly due to the increase in in-game purchases during the last quarter of 2021 by our users through various third-party distribution platforms as a result of our launch of *Football Champion* (最佳11人 — 冠軍球會) in overseas markets such as Hong Kong, Vietnam and South Korea during August and September 2021. Our net trade receivables increased from approximately RMB35.6 million as at December 31, 2021 to approximately RMB52.3 million as at June 30, 2022, which was in line with our growth of revenue generated from users making payments through the Platforms during the six months ended June 30, 2022.

The following table sets forth our average trade receivables turnover days as at the dates indicated:

	2019	As at December 31, 2020	2021	As at June 30, 2022
Average trade receivables turnover days ⁽¹⁾	<u>35</u>	<u>24</u>	<u>25</u>	<u>30</u>

- (1) Average trade receivables turnover days is equal to the average of the opening and closing balances of gross trade receivables of the relevant period divided by revenue of the relevant period and multiplied by 365 days for each of the years ended December 31, 2019, 2020 and 2021 and 182 days for the six months ended June 30, 2022.

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As at December 31, 2019, 2020 and 2021 and June 30, 2022, our average trade receivables turnover days were 35 days, 24 days, 25 days and 30 days, respectively, which were in line with the credit periods granted by us of one to three months. Our average trade receivables turnover days decreased from 35 days in 2019 to 24 days in 2020, which was mainly due to the decrease in trade receivables in 2020, partly resulting from the early settlement of approximately RMB1.9 million trade receivables from Supplier C. Our average trade receivables turnover days in 2021 maintained at a stable level as that in 2020. The higher average trade receivables turnover days of 30 days as at June 30, 2022 as compared to 25 days as at December 31, 2021 was mainly due to the increase in trade receivables, which was in line with our growth of revenue generated from users making payments through the Platforms during the six months ended June 30, 2022.

As of the Latest Practicable Date, approximately RMB51.4 million, or 98.3% of our trade receivables as at June 30, 2022 were subsequently settled.

The following table sets out the aging analysis of our trade receivables as at the dates indicated:

	As at December 31,			As at
	2019	2020	2021	June 30,
	RMB'000	RMB'000	RMB'000	2022
				RMB'000
Up to 3 months	20,920	19,607	34,398	52,389
3 months to 1 year	4,139	762	1,305	1,811
Over 1 year	<u>3,898</u>	<u>3,941</u>	<u>3,724</u>	<u>3,652</u>
	<u>28,957</u>	<u>24,310</u>	<u>39,427</u>	<u>57,852</u>

The following table sets out the movements for impairment loss on our trade receivables as at the dates indicated:

	As at December 31,			As at
	2019	2020	2021	June 30,
	RMB'000	RMB'000	RMB'000	2022
				RMB'000
At beginning of the year/period	1,436	1,565	3,989	3,829
Provision for/(reversal of)				
impairment	129	3,788	(160)	1,772
Written off	<u>—</u>	<u>(1,364)</u>	<u>—</u>	<u>—</u>
At end of the year/period	<u>1,565</u>	<u>3,989</u>	<u>3,829</u>	<u>5,601</u>

We apply HKFRS 9 simplified approach to measure expected credit loss which uses a lifetime expected loss allowance for our trade receivables. To measure the expected credit loss, trade receivables relating to the Platforms or third-party publishers with known financial difficulties or significant doubt on collection of receivables are assessed individually for provision for impairment allowance, with the remaining trade receivables being grouped based on shared credit risk characteristics. As at December 31, 2019 and 2020 and June 30, 2022, our Group recorded provision for impairment on trade receivables of approximately RMB0.1 million, RMB3.8 million and RMB1.8 million, respectively. We recorded a reversal of provision for impairment on trade

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receivables of approximately RMB0.2 million as at December 31, 2021. As at December 31, 2020, an impairment of trade receivables of approximately RMB1.4 million was written off in relation to the non-payment of long outstanding receivables from a third-party distribution platform in the PRC.

Prepayments, deposits and other receivables

Our prepayments, deposits and other receivables mainly comprised (i) prepayment for [REDACTED] expenses; (ii) prepayment for royalty fees which represented upfront license fees payable to the IP right holders before the commencement of the term of the license; and (iii) prepayment for advertising and marketing expenses. The following table sets out a summary of our current and non-current prepayments, deposits and other receivables as at the dates indicated:

		As at December 31,			As at
	2019	2020	2021		June 30,
	RMB'000	RMB'000	RMB'000		2022
					RMB'000
Prepayment for [REDACTED] expenses	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Prepayment for royalty fees	275	3,516	363		6,903
Prepayment for advertisement and marketing expenses	908	1,966	5,666		4,045
Prepayment for renovation cost	—	—	—		513
Other prepayments	1,000	1,071	1,481		2,086
Deposits	268	312	1,235		1,526
Loan granted to employees	642	152	466		398
Other receivables	478	106	532		475
	<u>8,661</u>	<u>12,204</u>	<u>17,177</u>		<u>27,062</u>

Our total prepayments, deposits and other receivables increased by approximately RMB3.5 million, from approximately RMB8.7 million as at December 31, 2019 to approximately RMB12.2 million as at December 31, 2020 primarily due to an increase of prepayment for royalty fees by approximately RMB3.2 million, representing the upfront license fees payable by us to FIFPro after renewing the relevant IP licensing agreement during the year ended December 31, 2020 for *Football Champion* (最佳11人 — 冠軍球會) for a new license period of two years commencing on September 1, 2021 and an increase in prepayment for advertisement and marketing expenses by approximately RMB1.1 million attributable to the brand ambassador agreements entered into with Carmelo Anthony and Fernando Torres. Our total prepayments, deposits and other receivables further increased by approximately RMB5.0 million from approximately RMB12.2 million as at December 31, 2020 to approximately RMB17.2 million as at December 31, 2021 due to the increase in prepayment for [REDACTED] expenses by approximately RMB[REDACTED] for the preparation of the [REDACTED] and the increase in prepayment for advertisement and marketing expenses by approximately RMB3.7 million attributable to our advertisement and marketing efforts to promote *Football Champion* (最佳11人 — 冠軍球會) in overseas markets including approximately RMB2.3 million for engaging Andrés Iniesta Luján as our game ambassador. Our total prepayments, deposits and other receivables increased by approximately RMB9.9 million from approximately RMB17.2 million as at December 31, 2021 to approximately RMB27.1 million as at June 30, 2022 due to the increase in prepayment for [REDACTED] expenses by approximately RMB[REDACTED] for the preparation of the [REDACTED] and the increase in prepayment for royalty fees by approximately

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RMB6.5 million as we acquired the IP right licenses from FIFPro during the six months ended June 30, 2022 for our newly launched football action simulation game, *Total Football* (最佳球會) in July 2022.

As of the Latest Practicable Date, approximately RMB10.3 million, or 38.0% of our prepayments, deposits and other receivables as at June 30, 2022 were subsequently settled.

Amounts due from non-controlling interests

During the Track Record Period, amounts due from non-controlling interests of approximately RMB1.9 million, RMB1.9 million, RMB1.7 million and RMB0.7 million, respectively, were non-trade in nature, non-interest bearing, unsecured and repayable on demand. Please see Note 20 of the Accountant’s Report in Appendix I to this document for more information. The amounts due from non-controlling interests will be settled prior to the [REDACTED].

Amounts due from shareholders

As at December 31, 2020, we had an outstanding amount due from Mr. Li Xin of approximately RMB48,000. The amounts due from shareholders are non-trade in nature, unsecured, interest free and repayable on demand, and were fully settled as of December 31, 2021. Please see Note 31 of the Accountant’s Report in Appendix I to this document for more information.

Amounts due from related parties

During the Track Record Period, our amounts due from related parties were non-trade in nature. Our amounts due from related parties increased by approximately RMB3.9 million from approximately RMB0.2 million as at December 31, 2019 to approximately RMB4.1 million as at December 31, 2020, mainly due to a loan advanced to Mr. Guo, one of our senior management in an amount of RMB4.0 million which was settled in 2021. The outstanding amounts due from Mr. Guo of RMB36,000 as at December 31, 2021 has been subsequently settled during the six months ended June 30, 2022.

Financial Assets at fair value through profit or loss

We had no financial assets at fair value through profit or loss as at December 31, 2019 and 2021 and June 30, 2022 as we fully redeemed our wealth management products at maturity by the end of each of the respective period. As at December 31, 2020, our financial assets at fair value through profit or loss was approximately RMB1.0 million which primarily consisted of purchased wealth management products of approximately RMB104.7 million which was then set off by the disposal of approximately RMB104.0 million during the year. The majority of wealth management products we purchased was short-term instrument and issued by licensed bank(s) in the PRC. Although such wealth management products were non-principal guaranteed, they were generally described as having low risk in the product description manuals issued by the issuing bank(s). After the [REDACTED], any investment in wealth management products by our Group will be subject to compliance with the applicable requirements under Chapter 14 of the Listing Rules.

We are subject to interest risk, default risk and market risk associated with the investment in these wealth management products, which our Group cannot exclude the possibility of incurring potential loss therefrom. The chief financial officer of our Group, Mr. Chu Kai Chi, is responsible for reviewing all investments in financial assets, such as wealth management products, where he would consider various factors such as the structural risks of the wealth management products, the

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credibility of the issuing financial institution, past financial performance of the wealth management products and the cash flow of our Group. Mr. Chu obtained a bachelor’s degree in accounting and financial services from The Hong Kong Polytechnic University and has over 13 years of finance experience and has been a certified public accountant since January 2011. He acted as the chief financial officer and financial manager of various companies prior to joining our Group where he had accumulated experience in strategic and investment planning as well as mergers and acquisitions, and therefore he is capable of evaluating and assessing the investment risk and return of different investment products. For further details of Mr. Chu’s prior experience, please refer to the section headed “Directors and Senior Management — Senior Management” of this document.

According to our internal treasury policies, our investment approval processes in financial assets include (i) our finance team would first identify and recommend suitable financial assets, such as wealth management products from licensed banks or reputable financial institutions in the PRC and Hong Kong; (ii) the chief financial officer of our Group would review the proposal on a case-by-case basis and after due and careful consideration of a number of factors, including market conditions, investment returns, potential investment risk, investment costs and duration of investment; (iii) the chief financial officer of our Group would then discuss and obtain approval from the Board before making such investment; and (iv) once a decision is made by the Board to invest in the financial assets, our finance team together with the chief financial officer of our Group would be responsible for executing the investment, managing the investment portfolio and monitoring the investment conditions up to its maturity.

Furthermore, our Group has an investment policy in place and upon ensuring we have sufficient funds for our operations and investment activities, our finance team shall formulate a financial plan and obtain approval from the Board which comprises our general manager before investing in any wealth management products. The investment funds for the wealth management products shall be surplus cash of our Company and would not hinder the capital needs of our Group. Such wealth management products shall only be those offered from banks and financial institutions and do not include any structured derivatives linked to interest rates, exchange rates or other securities.

Trade payables

Our total trade payables mainly comprise license fee and royalty fee payable to the IP right holders for the rights to use the intellectual properties in our developed games.

	As at December 31,			As at
	2019	2020	2021	June 30,
	RMB'000	RMB'000	RMB'000	2022
				RMB'000
Non-current — Third parties	9,715	—	—	—
Current — Third parties	<u>43,307</u>	<u>41,031</u>	<u>30,617</u>	<u>31,982</u>
	<u>53,022</u>	<u>41,031</u>	<u>30,617</u>	<u>31,982</u>

Our total trade payables decreased by approximately RMB12.0 million from approximately RMB53.0 million as at December 31, 2019 to approximately RMB41.0 million as at December 31, 2020, primarily due to the settlement of a non-current third-party trade payable during the year ended December 31, 2020 in relation to the contracts signed with NBA and NBPA. Our total trade payables further decreased by approximately RMB10.4 million from approximately RMB41.0

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million as at December 31, 2020 to approximately RMB30.6 million as at December 31, 2021 primarily due to the settlement of current third-party trade payables in relation to the contracts signed with NBA and NBPA. Our total trade payables remained at a stable level as at June 30, 2022 with a slight increase of approximately RMB1.4 million from approximately RMB30.6 million as at December 31, 2021 to RMB32.0 million as at June 30, 2022.

The following table sets forth our average trade payables turnover days for the years indicated:

	As at December 31,			As at
	2019	2020	2021	June 30, 2022
Average trade payables turnover days ⁽¹⁾	<u>66</u>	<u>77</u>	<u>55</u>	<u>39</u>

- (1) Average trade payables turnover days is equal to the average of the opening and closing balances of trade payables of the relevant period divided by cost of revenue of the relevant period and multiplied by 365 days for each of the years ended December 31, 2019, 2020 and 2021 and 182 days for the six months ended June 30, 2022.

As at December 31, 2019, 2020 and 2021 and June 30, 2022, our average trade payables turnover days were approximately 66 days, 77 days, 55 days and 39 days, respectively. The increase in average trade payables turnover days from 66 days in 2019 to 77 days in 2020 was due to the higher opening balance of the trade payables for 2020 from the aforementioned NBA and NBPA license contracts. The decrease in average trade payables turnover days from 77 days in 2020 to 55 days in 2021 was primarily due to the settlement of current third-party trade payables in relation to the NBA and NBPA contracts as mentioned above. Our average trade payables turnover days further decreased from 55 days as at December 31, 2021 to 39 days as at June 30, 2022, primarily due to the increase in cost of revenue in line with our revenue growth for the six months ended June 30, 2022 while our trade payables remained relatively stable as of June 30, 2022. We are generally granted with credit terms of up to 45 days by our suppliers. We recorded trade payables turnover days as at December 31, 2019, 2020 and 2021 higher than the usual credit terms granted by our suppliers due to the time difference between the date of recognizing the services provided by our suppliers to us and the invoice date. We record the trade payables amount upon accepting the services but our credit period begins as of the invoice date in which such invoice may be issued days or weeks after our accepting of the services and depending upon the billing cycle of the suppliers. Our trade payables aging over two years as at December 31, 2020, 2021 and June 30, 2022 mainly comprised of the minimum guarantee fee and royalty fees payable to but yet to be invoiced by our IP rights holders. Our Group will settle the payment to the relevant IP rights holders upon the receipt of the corresponding invoice. As of the Latest Practicable Date, we had no outstanding balance of trade payables in dispute with our creditors.

As of the Latest Practicable Date, approximately RMB11.0 million, or 34.4% of our trade payables as at June 30, 2022 were subsequently settled.

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The following table sets out the aging analysis of our total trade payables as at the dates indicated:

	As at December 31,			As at
	2019	2020	2021	June 30,
	RMB'000	RMB'000	RMB'000	2022
				RMB'000
0–90 days	37,427	22,114	17,155	22,740
91–365 days	9,985	4,787	2,172	1,078
1–2 years	5,610	9,114	4,546	1,389
Over 2 years	—	5,016	6,744	6,775
	<u>53,022</u>	<u>41,031</u>	<u>30,617</u>	<u>31,982</u>

Other payables and accruals

Our other payables and accruals mainly comprised (i) payroll and welfare payables; (ii) other tax payables; and (iii) accrued expenses.

	As at December 31,			As at
	2019	2020	2021	June 30,
	RMB'000	RMB'000	RMB'000	2022
				RMB'000
Payroll and welfare payables	12,157	12,669	12,426	7,735
Other tax payables	8,611	11,197	11,065	13,772
Accrued expenses	5,184	3,235	15,645	13,321
Others	806	917	802	829
Less: non-current portion	<u>(68)</u>	<u>(208)</u>	<u>(306)</u>	<u>(455)</u>
Current portion	<u>26,690</u>	<u>27,810</u>	<u>39,632</u>	<u>35,202</u>

Our current portion of other payables and accruals remained relatively stable at approximately RMB26.7 million and RMB27.8 million as at December 31, 2019 and 2020, respectively. Our current portion of other payables and accruals increased by approximately RMB11.8 million from approximately RMB27.8 million as at December 31, 2020 to approximately RMB39.6 million as at December 31, 2021 mainly contributed by the increase of approximately RMB12.4 million in accrued expenses primarily resulting from our advertising fee. Our current portion of other payables and accruals decreased by approximately RMB4.4 million from approximately RMB39.6 million as at December 31, 2021 to approximately RMB35.2 million as at June 30, 2022 primarily due to the decrease of approximately RMB4.7 million in payroll and welfare payables as during the six months ended June 30, 2022, we settled the annual bonus for our employees declared before December 31, 2021.

As of the Latest Practicable Date, approximately RMB16.5 million, or 46.9% of our current portion of other payables and accruals as at June 30, 2022 were subsequently settled.

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Contract Liabilities and Contract Costs

Contract liabilities primarily consist of the unamortized revenue from the sale of in-game tokens and other virtual items, where there is still an implied obligation to be provided by our Group and will be recognized as revenue when all of the revenue recognition criteria are met. During the Track Record Period, we recorded contract liabilities of approximately RMB20.5 million, RMB28.9 million, RMB35.9 million and RMB42.8 million, respectively. The increases in our contract liabilities during the Track Record Period were in line with the stable growth of the in-game spending level of our users in our existing games. In particular, the launch of *Football Champion* (最佳11人 — 冠軍球會) in Hong Kong, South Korea and Vietnam during August and September 2021 significantly boosted the in-game spending from paying users of these new overseas markets. Given the same revenue recognition criteria adopted during the Track Record Period, the overall growth of in-game sale resulted in the increase of our contract liabilities. As of the Latest Practicable Date, RMB42.8 million, or 100.0% of our contract liabilities as at June 30, 2022 were subsequently recognized as revenue. Contract costs primarily refer to incremental costs of obtaining a contract, including unamortized commission fee charged by the Platforms and unamortized revenue sharing to third-party publishers which are capitalised if they are expected to be recorded. During the Track Record Period, our contract costs amounted to approximately RMB8.7 million, RMB11.6 million, RMB13.1 million and RMB14.9 million, respectively. Capitalised contract costs are amortised on a systematic basis consistent with the pattern of the transfer of the goods or services to which the asset relates. Similar to the increases of our contract liabilities during the Track Record Period, the increases in our contract costs during the Track Record Period were in line with the stable growth of the sale of in-game tokens and other virtual items which in turn resulted in more unamortized commission fee charged by the Platforms.

Current Income Tax Receivables and Current Income Tax Liabilities

Current income tax receivables and liabilities primarily consist of PRC and Hong Kong tax. During the Track Record Period, we recorded current income tax receivables of approximately nil, RMB0.3 million, RMB0.6 million and RMB2.9 million, respectively and current income tax liabilities of approximately RMB6.7 million, RMB3.1 million, RMB0.6 million and RMB3.3 million, respectively. The increase in current income tax receivables as of June 30, 2022 was mainly due to the increase of prepayments of current income tax made by the WFOE. The decreases in current income tax liabilities during the years ended December 31, 2019, 2020 and 2021 were mainly due to the combined effects of (i) our Company repaying a greater amount of their tax liabilities; and (ii) our Company claiming a greater amount of tax deductible expenses from the continuous increase in research and development expenses incurred during the years ended December 31, 2019, 2020 and 2021. As of June 30, 2022, the current income tax liabilities rebounded to approximately RMB3.3 million, mainly due to the increase of CIT rate applicable to Wangchen Technology to 25% for the six months ended June 30, 2022.

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Right-of-use assets and Lease Liabilities

During the Track Record Period, our Group has leased properties in the PRC primarily for business and office purposes. The following table sets out our right-of-use assets and lease liabilities as at the dates indicated:

	As at December 31,			As at
	2019	2020	2021	June 30,
	RMB'000	RMB'000	RMB'000	2022
				RMB'000
Right-of-use assets	2,610	3,541	12,488	14,445
Current lease liabilities	1,737	2,082	4,558	6,736
Non-current lease liabilities	<u>600</u>	<u>1,484</u>	<u>7,830</u>	<u>7,986</u>
Total lease liabilities	<u><u>2,337</u></u>	<u><u>3,566</u></u>	<u><u>12,388</u></u>	<u><u>14,722</u></u>

Our right-of-use assets and lease liabilities increased by approximately RMB0.9 million and RMB1.2 million respectively as at December 31, 2020 when compared with 2019 as we renewed our lease in relation to our Shenzhen office and signed a new lease during the year. Our right-of-use assets and lease liabilities increased by approximately RMB8.9 million and RMB8.8 million respectively as at December 31, 2021 when compared with 2020 as we moved our headquarters to Qianhai Shenzhen — Hong Kong Modern Service Industry Cooperation Zone and signed the corresponding new lease agreement during the year. Our right-of-use assets and lease liabilities increased by approximately RMB2.0 million and RMB2.3 million respectively as at June 30, 2022 when compared with that as at December 31, 2021, as we signed a new lease agreement for our office use during the six months ended June 30, 2022.

KEY FINANCIAL RATIOS

The following table sets forth our key financial metrics for the periods indicated:

	Year ended December 31,			Six months ended	
	2019	2020	2021	June 30,	2022
				2021	
				(Unaudited)	
Gross profit margin	45.2%	44.6%	48.2%	45.7%	50.5%
Net profit margin ⁽¹⁾	12.1%	10.1%	8.6%	3.9%	6.9%
Return on equity ⁽²⁾	36.4%	27.8%	36.6%	N/A	N/A
Return on assets ⁽³⁾	19.3%	16.1%	13.5%	N/A	N/A
Interest coverage ratio ⁽⁴⁾	251.3 times	72.5 times	55.6 times	13.2 times	46.9 times

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	As at December 31,			As at
	2019	2020	2021	June 30, 2022
Current ratio ⁽⁵⁾	1.9 times	2.1 times	1.4 times	1.5 times
Quick ratio ⁽⁶⁾	1.9 times	2.1 times	1.4 times	1.5 times
Debt-to-equity ratio ⁽⁷⁾	N/A	N/A	N/A	N/A

Notes:

1. Net profit margin equals to profit for the year/period divided by revenue for the year/period, multiplied by 100%.
2. Return on equity equals profit attributable to owners of our Company for the year divided by the closing balance of the equity attributable to owners of our Company, multiplied by 100%.
3. Return on assets equals profit for the year divided by the closing balance of total assets, multiplied by 100%.
4. Interest coverage ratio equals to operating profit for the year/period divided by interest expenses for the year/period.
5. Current ratio equals to total current assets divided by total current liabilities as at the year/period end date.
6. Quick ratio equals to total current assets less inventories divided by total current liabilities as at the year/period end date.
7. Debt-to-equity ratio equals to net debt divided by total equity as at the year/period end date. Net debt is defined to include all interest bearing bank borrowings and financial liability at fair value through profit or loss net of cash and cash equivalents.

Return on equity

Our return on equity decreased from approximately 36.4% for the year ended December 31, 2019 to approximately 27.8% for the year ended December 31, 2020, primarily due the increase in equity attributable to owners of our Company by approximately RMB21.5 million, or 16.8%, from RMB128.0 million as at December 31, 2019 to RMB149.5 million as at December 31, 2020 resulted from the increase in retained earnings by approximately RMB14.3 million during the year ended December 31, 2020 as compared with the previous year. Our return on equity increased from approximately 27.8% for the year ended December 31, 2020 to approximately 36.6% for the year ended December 31, 2021 mainly due to the decrease in equity attributable to owners of our Company by approximately RMB40.3 million, or 26.9%, from RMB149.5 million as at December 31, 2020 to RMB109.2 million as at December 31, 2021, resulted from the decrease in retained earnings by approximately RMB45.9 million during the year ended December 31, 2021 as compared with the previous year mainly due to the dividends declared and distributed of RMB80.0 million during 2021.

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Return on assets

Our return on assets decreased from approximately 19.3% for the year ended December 31, 2019 to 16.1% for the year ended December 31, 2020, primarily due to the increase in total assets by approximately RMB16.0 million, or 6.8%, from approximately RMB236.7 million as at December 31, 2019 to approximately RMB252.7 million as at December 31, 2020 contributed by the increase in cash and cash equivalents mainly generated by our operating activities by approximately RMB18.7 million during the year ended December 31, 2020 as compared with the previous year. Our return on assets further decreased from approximately 16.1% for the year ended December 31, 2020 to approximately 13.5% for the year ended December 31, 2021 mainly due to the increase in total assets by approximately RMB39.6 million or 15.7% from approximately RMB252.7 million as at December 31, 2020 to approximately RMB292.4 million as at December 31, 2021 contributed by the increase in cash and cash equivalents and trade receivables by approximately RMB24.7 million and RMB15.3 million, respectively, mainly generated by our operating activities during the year ended December 31, 2021 as compared with the previous year.

Interest coverage ratio

Our interest coverage ratio dropped significantly from approximately 251.3 times for the year ended December 31, 2019 to approximately 72.5 times for the year ended December 31, 2020, attributable to (i) the decrease in operating profit by approximately RMB4.6 million, or 9.4%, from approximately RMB49.0 million for the year ended December 31, 2019 to RMB44.4 million for the year ended December 31, 2020 as mentioned above; and (ii) increase in interest expense by RMB0.4 million or 213.8% due to an interest accretion resulting from the discounting of non-current trade payables. Our interest coverage ratio further dropped from approximately 72.5 times for the year ended December 31, 2020 to approximately 55.6 times for the year ended December 31, 2021 mainly due to the decrease in operating profit by approximately RMB3.4 million or 7.7% from approximately RMB44.4 million for the year ended December 31, 2020 to approximately RMB41.0 million for the year ended December 31, 2021 as mentioned above. Our interest coverage ratio increased from approximately 13.2 times for the six months ended June 30, 2021 to approximately 46.9 times for the six months ended June 30, 2022 mainly due to the increase in operating profit by approximately RMB18.3 million or 366.0% from approximately RMB5.0 million for the six months ended June 30, 2021 to approximately RMB23.3 million for the six months ended June 30, 2022.

Current ratio

Our current ratio increased slightly from approximately 1.9 times for the year ended December 31, 2019 to 2.1 times as at December 31, 2020 due to an increase in our cash and cash equivalents by approximately RMB18.7 million, partially offset by (i) the increase in contract liabilities by approximately RMB8.4 million; and (ii) the decrease of trade receivables by approximately RMB7.1 million. Our current ratio decreased from approximately 2.1 times as at December 31, 2020 to approximately 1.4 times as at December 31, 2021 mainly due to increase in a financial liability at fair value through profit or loss by approximately RMB65.6 million as we recognized the Pre-[REDACTED] Convertible Bonds as a current financial liability at fair value through profit or loss during the year ended December 31, 2021. Our current ratio remained stable at approximately 1.5 times as at June 30, 2022 as compared to approximately 1.4 times as at December 31, 2021.

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Quick ratio

Our quick ratios for the years ended December 31, 2019, 2020 and 2021 and six months ended June 30, 2022 were the same as our current ratio as we maintained no inventory during the same periods.

Debt-to-equity ratio

Our Group did not have any interest-bearing bank borrowings as at December 31, 2019, 2020 and 2021 and June 30, 2022. Though we recognized the Pre-[REDACTED] Convertible Bonds as a financial liability at fair value through profit or loss of approximately RMB65.6 million and RMB67.0 million as at December 31, 2021 and June 30, 2022, respectively, we had sufficient cash and cash equivalents of approximately RMB188.4 million and RMB188.5 million as at December 31, 2021 and June 30, 2022, respectively, to cover the debt position. Therefore, as we did not record any net debt during the Track Record Period, the debt-to-equity ratio is not applicable to us for the relevant periods.

WORKING CAPITAL

We intend to continue to finance our working capital with cash generated from our operations, our existing cash and bank balances, the [REDACTED] from the [REDACTED] and other possible equity and debt financings raised from capital markets from time to time as and when appropriate. We will closely monitor the level of our working capital, particularly in view of our strategy to continue expanding our game portfolio and trying to reach more players in the PRC and overseas markets.

During the Track Record Period and up to the Latest Practicable Date, we have financed our operations primarily through cash generated by operating activities as well as our existing cash and bank balances comprising the [REDACTED] from the Pre-[REDACTED] Convertible Bonds subscribed by Garena Ventures.

Taking into account the financial resources available to us, including cash and cash equivalents, cash flows from operations, and the estimated [REDACTED] of the [REDACTED], our Directors are of the opinion that we have sufficient working capital for our requirements for at least the next 12 months from the date of this document.

INDEBTEDNESS, CONTINGENT LIABILITIES AND OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

Indebtedness

Our indebtedness consisted primarily of lease liabilities and financial liability at fair value through profit or loss. During the Track Record Period, we recognized the Pre-[REDACTED] Convertible Bonds as financial liability at fair value through profit or loss. For details of the reasons for fluctuations of our Group’s lease liabilities during the Track Record Period, please refer to “Right-of-use assets and Lease Liabilities” in this section. As of October 31, 2022, being the latest practicable date for the purpose of the indebtedness statement below, save for approximately RMB79.3 million in indebtedness which comprised current lease liabilities of approximately RMB6.7 million and non-current lease liabilities of approximately RMB5.7 million as well as financial liability at fair value through profit or loss of approximately RMB67.0 million, we did not, on a consolidated basis, have any outstanding debt securities, charges, mortgages, or other similar indebtedness, finance lease commitments, guarantees or other material contingent liabilities, or

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borrowings and other banking facilities. Since October 31, 2022 and up to the Latest Practicable Date, there had been no material adverse change in our indebtedness. The following table sets forth the components of our indebtedness as of the dates indicated.

	As of December 31,			As of	As of
	2019	2020	2021	June 30,	October 31,
	RMB'000	RMB'000	RMB'000	2022	2022
				RMB'000	RMB'000
					(unaudited)
Lease liabilities	2,337	3,566	12,388	14,722	12,384
— Current	1,737	2,082	4,558	6,736	6,730
— Non-current	600	1,484	7,830	7,986	5,654
Financial liability at fair value through profit or loss	—	—	65,642	66,956	66,956
Total	2,337	3,566	78,030	81,678	79,340

Our Directors confirmed that there is no material change in our indebtedness position since June 30, 2022 and up to October 31, 2022, being the latest practicable date for the purpose of the indebtedness statement in this document. As of the Latest Practicable Date, our Group had no unutilized banking facilities.

Contingent Liabilities

As of October 31, 2022, being the latest practicable date for the purpose of the indebtedness statement in this document, we did not have any contingent liabilities, guarantees or any litigations or claims of material importance, pending or threatened against any member of our Group. Our Directors have confirmed that there has not been any change in our contingent liabilities since June 30, 2022. Except as stated above including the Pre-[REDACTED] Convertible Bonds, as of October 31, 2022, being the latest practicable date for the purpose of the indebtedness statement in this document, we did not have any other loan issued and outstanding or any loan agreed to be issued, bank overdrafts, loans and other similar indebtedness, liabilities under acceptances or acceptance credits (other than normal trade-related bills), debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities.

Our Directors confirm that as of October 31, 2022, being the latest practicable date for the purpose of the indebtedness statement in this document, there was no covenant on any of our outstanding debt and there was no breach of any covenants during the Track Record Period and up to October 31, 2022. Our Directors further confirm that we did not experience any difficulty in obtaining bank loans and other borrowings, default in payment of bank loans and other borrowings or breach of covenants during the Track Record Period and up to October 31, 2022.

Pre-[REDACTED] Convertible Bonds

On June 16, 2021, our Company entered into the Pre-[REDACTED] CB Subscription Agreement with, among others, Garena Ventures, pursuant to which Garena Ventures agreed to subscribe for the Pre-[REDACTED] Convertible Bonds in the principal amount of HK\$[REDACTED] and the issuance of the Pre-[REDACTED] Convertible Bonds by our

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Company to Garena Ventures was completed on June 21, 2021. On May 31, 2022, our Company and Garena Ventures executed a supplemental deed to extend the maturity date of the Pre-[REDACTED] Convertible Bonds from June 6, 2022 to June 6, 2023.

Assuming full conversion of the Pre-[REDACTED] Convertible Bonds immediately before the [REDACTED], Garena Ventures will be issued [REDACTED] Shares, representing approximately [REDACTED] of the issued share capital of our Company immediately upon [REDACTED] (without taking into account any Shares which may be issued upon exercise of any option which may be granted under the Share Option Scheme and assuming that there is no adjustment to the conversion price).

The Pre-[REDACTED] Convertible Bonds are not interest bearing if the conversion takes place before the Maturity Date. Otherwise, the Pre-[REDACTED] Convertible Bonds shall bear a simple interest computed at a rate of 5% per annum (on the basis of a 365-day year and the actual number of days elapsed), commencing on the issuance date of the Pre-[REDACTED] Convertible Bonds and until the full payment of the outstanding principal amount and any accrued and unpaid interest payable at maturity or redemption of the Pre-[REDACTED] Convertible Bonds. The Pre-[REDACTED] Convertible Bonds are redeemable at the option of the bondholders at the amount equal to the aggregate of the outstanding principal amount of and any accrued and unpaid interest on the Pre-[REDACTED] Convertible Bonds to be redeemed if (i) it is expected that our Company will not be [REDACTED] on the Stock Exchange or other reputable stock exchange on or before the Maturity Date; or (ii) there is any occurrence of the Change of Control. Therefore, in the event of any redemption of the Pre-[REDACTED] Convertible Bonds, our cash flow and cash position would be reduced by such principal amount and interest accrued and unpaid. For further details of the terms of the Pre-[REDACTED] Convertible Bonds, including terms relating to interest rate, the Maturity Date, redemption and conversion, please see the sections headed “History, Reorganization and Corporate Structure — Pre-[REDACTED] Investments — The Pre-[REDACTED] CB Subscription” and “Risk Factors — Risks Relating to the [REDACTED] — The shareholding percentages of the existing Shareholders will be diluted following the conversion of the Pre-[REDACTED] Convertible Bonds prior to the [REDACTED]” of this document.

Off-Balance Sheet Commitments and Arrangements

As of October 31, 2022, being the latest practicable date for the purpose of the indebtedness statement in this document, we had not entered into any off-balance sheet transactions.

CAPITAL COMMITMENTS

Capital expenditures contracted for at the end of the year but not yet recognized as liabilities is as follows:

	As of December 31,			As at
	2019	2020	2021	June 30,
	RMB'000	RMB'000	RMB'000	2022
				RMB'000
Intangible asset	—	3,306	10,830	4,100

Our capital commitments primarily consist of purchase of intangible assets. The intangible assets as of December 31, 2020 represents the outstanding commitment relating to license fees due to FIFPro for *Football Champion (最佳11人 — 冠軍球會)* under the IP licensing agreement we entered into in April 2020. Our capital commitments increased by approximately RMB7.5 million as at December 31, 2021 as compared with 2020 as we entered into IP licensing agreement with FIFPro for

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the launch of *Total Football* (最佳球會) and obtained new IP right licenses from Borussia Dortmund during the year of 2021. Our capital commitments decreased to approximately RMB4.1 million as at June 30, 2022 due to the payments we made pursuant to the IP licensing agreement with FIFPro as mentioned above during the six months ended June 30, 2022.

Operating Lease Commitments

The following table sets forth our total commitments for future aggregate minimum lease payments under non-cancellable short-term operating leases as of the dates indicated.

	For the year ended December 31,			For the six months ended
	2019	2020	2021	June 30, 2022
Not later than 1 year	<u>75</u>	<u>57</u>	<u>—</u>	<u>12</u>

MATERIAL RELATED PARTY TRANSACTIONS

The Directors are of the view that the following parties were related parties that had transaction or balances with our Group during the Track Record Period:

Name of related party	Relationship with our Group
Mr. Jia Xiaodong	A substantial shareholder and executive Director of our Company
Mr. Huang Xiang	A substantial shareholder and executive Director of our Company
Mr. Li Xin	A shareholder and executive Director of our Company
Mr. Guo Yucheng	A senior management member of our Company
Mr. Zhao Xin	A senior management member of our Company
Mr. Zeng Ke	A senior management member of our Company
Mr. Chu Kai Chi	A senior management member of our Company

For more details about our related party transactions during the Track Record Period, please see Note 31 of Appendix I to this document.

Our Directors believe that our transactions with related parties during the Track Record Period were conducted on an arm’s length basis, and they did not distort our results of operations or make our historical results not reflective of our future performance.

FINANCIAL RISK DISCLOSURE

We are exposed to a variety of financial risks: market risk (including foreign exchange risk, cash flow and fair value interest rate risk and price risk), credit risk and liquidity risk. We regularly monitor our exposure to these risks and seek to minimize potential adverse effects on our Group’s financial performance. Risk management is carried out by our senior management.

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Foreign Exchange Risk

Our Group’s foreign currency transactions are mainly denominated in US\$, EUR and HK\$. The majority of assets and liabilities are denominated in RMB, US\$, EUR and HK\$ and there are no significant assets and liabilities denominated in other currencies. Our Group is subject to foreign exchange rate risk arising from future commercial transactions and recognized assets and liabilities denominating in a currency other than RMB, which is the functional currency of the major operating companies within our Group. Our Group did not hedge our foreign currency exposure during the Track Record Period.

Price risk

Our Group’s exposure to equity price risk arises from its investments in wealth management products classified as financial assets at fair value through profit or loss. As at December 31, 2020, if the market bid prices of the investments had been 10% higher/lower, with all other variables held constant, our Group’s post-tax income for the year would increase/decrease by approximately RMB100,000. A 10% change is used when reporting the price risk internally to our management. As at December 31, 2019 and 2021 and June 30, 2022, our Group was not exposed to price risk as we maintained no financial asset at fair value through profit or loss.

To manage our price risk arising from such investments, our management constantly reviews the portfolio of investments and maintains our Group’s exposures to price risk within an acceptable level.

Cash flow and fair value interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates. Financial instruments at variable rates expose our Group to cash flow interest rate risk. Financial instruments at fixed rate expose us to fair value interest rate risk. As we have no significant interest-bearing assets or liabilities other than deposits placed with banks and the Pre-[REDACTED] Convertible Bonds, our income and operating cash flows are substantially independent of changes in market interest rates. Please see Note 3.1(a)(iii) of the Accountant’s Report in Appendix I to this document for more information.

Credit risk

Credit risk arises from short-term bank deposits, cash and cash equivalents, contractual cash flows of debt instruments carried at amortized cost and financial assets measured at fair value through profit or loss.

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As at December 31, 2019, 2020 and 2021, and June 30, 2022, our Group’s cash and bank balances were denominated in the following currencies:

	As at December 31,			As at
	2019	2020	2021	June 30,
	RMB'000	RMB'000	RMB'000	2022
				RMB'000
RMB	25,848	87,996	152,758	167,083
US\$	114,946	67,398	33,026	18,351
HK\$	4,324	8,410	2,709	3,059
Others	<u>4</u>	<u>4</u>	<u>—</u>	<u>—</u>
	<u>145,122</u>	<u>163,808</u>	<u>188,493</u>	<u>188,493</u>

Our funds amounting to approximately RMB25.8 million, RMB38.0 million, RMB29.8 million and RMB28.7 million as at December 31, 2019, 2020 and 2021 and June 30, 2022, respectively, are kept in the bank accounts with banks in the PRC where the remittance of funds is subject to foreign exchange control.

The carrying amounts of short-term bank deposits, cash and cash equivalents and contractual cash flows of debt instruments carried at amortised cost and financial assets measured at fair value through profit or loss represent our Group’s maximum exposure to credit risk in relation to financial assets.

Credit risk is managed on a group basis. To manage our credit risk, we mainly place our deposits with banks and financial assets at fair value through profit or loss with reputable financial institutions.

For trade receivables, our management make periodic collective assessments as well as individual assessment on the recoverability of the receivables based on the historical settlement records and past experience. Trade receivables at the end of each reporting period were due from the third-party Platforms and third-party publishers. If the strategic relationship with the third-party Platforms and third-party publishers are terminated or scaled-back; or if the third-party Platforms and third-party publishers alter the co-operative arrangements; or if they experience financial difficulties in paying our Group, our corresponding trade receivables might be adversely affected in terms of recoverability.

To manage this risk, we maintain frequent communications with third-party Platforms and third-party publishers to ensure effective credit control. In view of the history of cooperation with the third-party Platforms and third-party publishers and the sound collection history of receivables due from the majority of them, our Directors believe that the credit risk inherent in our Group’s outstanding trade receivables balances due from the third-party Platforms and third-party publishers is low. Please see Note 3.1(b) of the Accountant’s Report in Appendix I to this document for more information on our credit risk.

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Liquidity Risk

Our Group aims to maintain sufficient cash and cash equivalents. Due to the dynamic nature of the underlying businesses, our Group’s finance department maintains flexibility in funding by maintaining adequate cash and cash equivalents. Please see note 3.1(c) of the Accountant’s Report in Appendix I to this document.

Fair Value Estimation

We measure fair values of financial instruments using the following fair value hierarchy that reflects the observability and significance of the inputs used in making the measurements:

- Level 1: The fair value of financial instruments that is based on quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: The fair value of financial instruments that is based on inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3: The fair value of financial instruments that is based on inputs for asset or liability not based on observable market data.

During the Track Record Period, our Group’s financial liabilities were measured at fair value using level 3 inputs and our Group’s financial assets were measured at fair value using level 2 inputs. Please see Note 3.3(a) of the Accountant’s Report in Appendix I to this document for more information.

DIVIDENDS

Under the Articles of Association, our Company may declare dividends in any currency to be paid to the shareholders but no dividend shall be declared in excess of the amount recommended by the Board. The Articles of Association provides that dividends may be declared and paid out of the profits of our Company, realized or unrealized, or from any reserve set aside from profits which the Directors determine is no longer needed. With the sanction of an ordinary resolution, dividends may also be declared and paid out of share premium account or any other fund or account which can be authorized for this purpose in accordance with the Companies Act. For the year ended December 31, 2020, our Group declared and approved dividends amounting to approximately RMB20.0 million, which was settled in full during the same year. For the year ended December 31, 2021, our Group declared and approved dividends of RMB80.0 million, which was settled in full during the same year.

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We are a holding company incorporated under the laws of the Cayman Islands. As a result, the payment and amount of any future dividend will also depend on the availability of dividends received from our subsidiaries. PRC laws require that dividends be paid only out of the profit for the year calculated according to PRC accounting principles, which differ in many aspects from the generally accepted accounting principles in other jurisdictions, including HKFRS. PRC laws also require a foreign-invested enterprise to set aside at least 10% of its after-tax profits, if any, to fund its statutory reserves, which are not available for distribution as cash dividends. Distributions from us and our subsidiaries may also become subject to any restrictive covenants in bank credit facilities, convertible bond instruments or other agreements that we or our subsidiaries may enter into in the future.

The amount of dividend actually distributed to our shareholders will depend upon our earnings and financial condition, operating requirements, capital requirements and any other conditions that our Directors may deem relevant and will be subject to approval of our shareholders. Our Board has the absolute discretion to recommend any dividend. Our historical dividend distribution record in the past may not be used as reference or basis to determine the level of dividends that may be declared or paid by our Company in the future, and there is no assurance that dividends of any amount will be declared or be distributed in any year. Currently we do not have a formal dividend policy or a fixed dividend distribution ratio.

DISTRIBUTABLE RESERVES

As of June 30, 2022, our Company did not have any distributable reserves.

[REDACTED] EXPENSES

[REDACTED] expenses represent professional fees, [REDACTED] and other fees incurred in connection with the [REDACTED] and the [REDACTED]. We estimate that our [REDACTED] expenses (including [REDACTED]) will be approximately RMB[REDACTED] (assuming an [REDACTED] of HK[REDACTED] per share, being the mid-point of the indicative [REDACTED] range), of which approximately RMB[REDACTED] is directly attributable to the issue of the Shares to the public and to be deducted from equity, and approximately RMB[REDACTED] has been or is expected to be expensed in our consolidated statements of comprehensive income of which approximately RMB[REDACTED], RMB[REDACTED], RMB[REDACTED], RMB[REDACTED] and RMB[REDACTED] were charged prior to the Track Record Period, for the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022, respectively, adjusted by an exchange difference of approximately RMB0.2 million. An additional amount of approximately RMB[REDACTED] is expected to be recognized in our consolidated statements of comprehensive income on or before the [REDACTED].

Assuming an [REDACTED] of HK\$[REDACTED] per share, being the mid-point of the indicative [REDACTED] range, our [REDACTED] expenses of approximately RMB[REDACTED] will amount to approximately [REDACTED] of the gross [REDACTED] from the [REDACTED], of which the [REDACTED] and non-[REDACTED] portion will be approximately RMB[REDACTED] and RMB[REDACTED], respectively. Among the non-[REDACTED] portion of the [REDACTED] expenses, approximately RMB[REDACTED] will be accounted for as professional parties expenses and the remaining RMB[REDACTED] will be accounted for as non-professional parties expenses.

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UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted consolidated net tangible assets of our Company prepared in accordance with Rule 4.29 of the Listing Rules is for illustration purposes only and it may not give a true picture of our net tangible assets following the [REDACTED]. The following statement of unaudited pro forma adjusted consolidated net tangible assets of our Company is set out here to illustrate the effect of the [REDACTED] on our net tangible assets attributable to the shareholders of our Company as of June 30, 2022, as if the [REDACTED] had taken place on June 30, 2022, and is based on the audited net assets of our Company derived from the financial statement in the Accountant’s Report in Appendix I to this document, and adjusted as described below.

	Audited consolidated net tangible assets attributable to owners of our Company as of June 30, 2022 ⁽¹⁾ (RMB'000)	Estimated [REDACTED] from the [REDACTED] ⁽²⁾ (RMB'000)	Unaudited pro forma adjusted net tangible assets attributable to the owners of our Company as of June 30, 2022 (RMB'000)	Unaudited pro forma adjusted net tangible assets per Share ⁽³⁾⁽⁴⁾ (RMB)	(HK\$)
Based on the [REDACTED] of HK\$[REDACTED] [REDACTED] (being the lowest)	116,665	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Based on the [REDACTED] of HK[REDACTED] [REDACTED] (being the highest)	116,665	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Notes:

- (1) The audited consolidated net tangible assets attributable to equity holders of our Company as at June 30, 2022 is extracted from the Accountant’s Report as set out in Appendix I to this document, which is based on the audited consolidated net assets of our Group attributable to equity holders of our Company as at June 30, 2022 of approximately RMB127.5 million with an adjustment for the intangible assets as at June 30, 2022 of approximately RMB10.8 million.
- (2) The estimated [REDACTED] to be received by our Company from the [REDACTED] are based on the indicative [REDACTED] of HK\$[REDACTED] per Share and HK\$[REDACTED] per Share, respectively, after deduction of the [REDACTED] fees and other related expenses (excluding approximately RMB[REDACTED] which had been recognized in the consolidated statements of comprehensive income prior to June 30, 2022) paid/payable by our Company, and takes no account of any Shares which may be issued under the Share Option Scheme or any Shares which may be issued or repurchased by our Company under the general mandate to issue Shares and general mandate to repurchase Shares as described in the section headed “Share Capital” in this document.

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- (3) Our Company issued convertible bonds (the “**Pre-[REDACTED] Convertible Bonds**”) to Garena Ventures Private Limited (“**Garena Ventures**”) in the principal amount of HK\$77,112,000 (equivalent to RMB64,163,000) and a conversion price of HK[REDACTED] per share (“**Conversion Price**”, which approximates to the mid-point of the indicative [REDACTED] range) on June 21, 2021. In the event the final [REDACTED] is less than the Conversion Price, automatic conversion will not be triggered and Garena Ventures may elect to redeem, convert all or part of the outstanding principal amount of the Pre-[REDACTED] Convertible Bonds at the Conversion Price prior to or after the [REDACTED] but in any event prior to the Maturity Date (being June 6, 2023).

The unaudited pro forma adjusted consolidated net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that [REDACTED] Shares were in issue assuming that the [REDACTED] and the [REDACTED] has been completed on June 30, 2022 without taking into account any Shares to be issued pursuant to the conversion or redemption of Pre-[REDACTED] Convertible Bonds issued on June 21, 2021 in the section headed “History, Reorganization and Corporate Structure”, any Shares which may be issued under the Share Option Scheme or any Shares which may be issued or repurchased by our Company under the general mandate to issue Shares and general mandate to repurchase Shares as described in the section headed “Share Capital” in this document. Any Shares to be issued upon full or partial conversion or redemption of the Pre-[REDACTED] Convertible Bonds was not considered since the [REDACTED] has yet to be determined at the date of the Document.

Assuming full conversion of the Pre-[REDACTED] Convertible Bonds upon completion of the [REDACTED], the pro forma net tangible asset as at 30 June 2022 would have been RMB[REDACTED] and the pro forma net tangible asset per Share would have been RMB[REDACTED] (equivalent to HK\$[REDACTED]) based on the [REDACTED] of HK\$[REDACTED] per Share and RMB[REDACTED] (equivalent to HK\$[REDACTED]) based on the [REDACTED] of HK\$[REDACTED] per Share.

- (4) For the purpose of this unaudited pro forma adjusted net tangible assets, the amounts stated in RMB are converted into Hong Kong dollars at rate of RMB0.8552 to HK\$1. No representation is made that RMB amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.
- (5) No adjustment has been made to reflect any [REDACTED] result or other transaction of our Group entered into subsequent to June 30, 2022.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, since June 30, 2022 and up to the date of this document, there has been no material adverse change in our financial or [REDACTED] position and no event which would materially affect the information shown in our consolidated financial statements included in the Accountant’s Report in Appendix I to this document.

RECENT DEVELOPMENT

As a mobile sports games developer, publisher and operator, our business and results of operations depend on our ability to effectively deal with the outbreak of health pandemics, natural disasters and other extraordinary events. For example, since the outbreak of COVID-19 pandemic throughout China and other countries and regions, a number of precautionary and control measures have been implemented worldwide to contain the virus. Government efforts to contain the spread of COVID-19 pandemic, including city lockdowns or “stay-at-home” orders, widespread business closures, restrictions on travel and emergency quarantines, have caused significant and unprecedented disruptions to the global economy and normal business operations across sectors and countries. The COVID-19 pandemic has caused minimal impact on our business up to the Latest Practicable Date in 2022. Based on the unaudited consolidated management accounts of our Group, we recorded an increase in total revenue of approximately 51.0% for the ten months ended October

FINANCIAL INFORMATION

31, 2022 as compared to the corresponding period in 2021, mainly attributable to the significant growth of revenue generated from *Football Champion* (最佳11人 — 冠軍球會) after its expansion in the overseas markets since the second half of 2021 and the official launch of our new mobile sports action simulation game, *Total Football* (最佳球會), in July 2022.

In July 2022, we launched our new mobile sports action simulation game, *Total Football* (最佳球會) in the PRC, New Zealand and Australia. *Total Football* (最佳球會) is our first self-developed mobile football action simulation game which incorporates the state of art 3D gameplay scenes and more advanced AI technology to enhance users’ sensational experience in the virtual sports matches by the application of manual steering skills. By virtue of the seamless gameplay with sophisticated action animation, *Total Football* (最佳球會) has been featured and demonstrated on the display of the latest Apple iPad model as of the Latest Practicable Date.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors confirm that, as of the Latest Practicable Date, there was no circumstance that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

FUTURE PLANS AND USE OF [REDACTED]

FUTURE PLANS

Please refer to the section headed “Business — Our Strategies” in this document for further details of our future plans.

OUR REASONS FOR THE [REDACTED]

Our Directors believe that the [REDACTED] will allow us to fulfill the following objectives:

Genuine funding needs

Our Directors consider that our expansion plan is capital intensive. We currently expect that the total investment amount for our expansion plan during the years ending December 31, 2023 and 2024 would be approximately HK\$701.7 million, of which approximately HK\$[REDACTED] will be financed by [REDACTED] from [REDACTED] and remainder of approximately HK\$[REDACTED] will be financed by internal resources and/or bank borrowings.

As at December 31, 2021, our cash and cash equivalents amounted to approximately RMB188.4 million, comprising the [REDACTED] of approximately HK\$[REDACTED] (equivalent to approximately RMB[REDACTED]) raised from the issuance of the Pre-[REDACTED] Convertible Bonds to Garena Ventures on June 21, 2021. During the Track Record Period, we recorded net cash generated from operating activities of approximately RMB90.6 million, RMB77.7 million, RMB67.8 million and RMB11.8 million, respectively. For details, please see “Financial Information — Liquidity and Capital Resources — Cash Flow”. If we solely rely on our operating activities to generate cash flow, such cash flow would be sufficient to maintain our business operations at current level, but it may not be economically viable to fully implement our business strategies according to our expected timeline or allow our Group to prepare for unforeseen adversities such as economic downturn and epidemic. Taking into account the capital required to finance our expansion plan for the years ending December 31, 2023 and 2024, respectively, and our requirement to maintain a sufficient level of general working capital, we have the genuine needs to satisfy our funding requirements through the [REDACTED]. As such, without the gateway to obtain the [REDACTED] for the [REDACTED] and the further possible equity and debt financings from the capital markets after the [REDACTED], the Group may inevitably be compelled to delay the timetable for the implementation of our Group’s business strategies to promote the existing games and new games in the pipeline, which in turn would adversely affect the Group’s ability to timely capture the potential market opportunities and our sustainable growth.

Besides, our Directors believe that it would not be practical for us to seek debt financings to fund our expansion plan before the [REDACTED], taking into account the following factors:

- (a) prior to [REDACTED], we mainly funded operations principally from cash flows generated from operating activities and our existing cash and bank balances. While we currently have sufficient internal cash flow for the purpose of our Group’s daily operations, under the circumstances where we require additional funding to fully implement our development and expansion plans to develop new games in the pipeline and to maintain and expand our market share, we may have to seek possible alternatives such as debt financings. However, we operate with an asset-light business model and do not have sufficient assets as collateral for obtaining debt financings in a sufficient amount and on favourable terms or at all.

FUTURE PLANS AND USE OF [REDACTED]

- (b) subject to the changing market circumstances, part of the external funding required to carry out the expansion plan during 2023 to 2024 may possibly be obtained from debt financings after the [REDACTED]. Our Directors believe that the [REDACTED] status on a reputable stock exchange, such as the Stock Exchange, will ease our Group’s negotiation with banks to obtain the desired debt financings and on more favourable terms to implement our business strategies. The [REDACTED] status can also provide a platform for our Group to access the capital markets for future fund-raising through either (i) issuance of shares or (ii) for debt securities, depending on the prevailing market condition at the time of capital needs.
- (c) upon [REDACTED], our regular financing reporting requirement in compliance with the Listing Rules can enable the banks to evaluate and monitor our Group’s financial position more effectively, and therefore is expected to facilitate the approval process for future bank borrowings. The better accessibility to banking facilities allows us more flexibility in our cash flow management during the course of our business operations and to implement our business strategies.

Therefore, our Directors consider it may not be practicable nor in the best interests of our Company and our Shareholders to seek for and rely on possible debt financings to meet our funding needs to fully implement our development and expansion plans in our current circumstances. By acquiring a [REDACTED] status upon the [REDACTED], we believe that we will have better bargaining power in our negotiation with financial institutions to obtain debt financings with more favourable terms as and when considered appropriate.

Necessity of implementing our business strategies to enhance our profitability

For the future development of our Group, we intend to renew existing IP right licenses and obtain additional IP right licenses from sports leagues, sports associations and sports clubs for the development of our existing and new sports games, further solidify our marketing efforts to actively promote our games to both PRC and overseas markets and further strengthen our talent pool in order to support our development of new mobile sports games and further improve our research and development capabilities. Please refer to “Business — Our Strategies” for further details.

Generate employee incentive and commitment and enhanced corporate image

We believe the [REDACTED] will improve our ability to recruit, motivate and retain key management personnel so as to expediently and effectively capture any business opportunities that may arise. The [REDACTED] will also enable us to offer an equity-based incentive program (such as the Share Option Scheme) to our employees that more directly correlates to their performance with our business, allowing our employees to share our success and deepen their commitment to our performance and continued success. We would therefore be in a better position to motivate our employees with any incentive programs that are closely aligned with the objective of creating value for our Shareholders.

FUTURE PLANS AND USE OF [REDACTED]

Strengthen our corporate profile, credibility and competitiveness

The [REDACTED] will help us increase our status and enhance our competitiveness among our competitors. Our Directors believe that the stringent corporate governance practices associated with our [REDACTED] status will enhance our internal control and risk management procedures to be of an internationally accepted standard as compared to those adopted when we were a private entity. By having a [REDACTED] status not only increases the credibility of our Group, it also increases our Board’s and our Group’s accountability as we comply with the rules and regulations of the market we populate and invites transparency. These serve as a benchmark of measures taking by our Company to protect [REDACTED] and shareholders. While the additional requirements set out for a company seeking a [REDACTED] on the Stock Exchange is to serve as measures for shareholder protection as well as an indirect advertising for our Company as our image is generally improved once we become [REDACTED], and hence improving confidence in our Group among our external stakeholders. This may result in a larger user base, strengthened relationships with new and existing IP right holders, third-party publishers and third-party distribution platforms.

Diversification of shareholder base and have more liquidity in trading Shares.

Our Directors believe that the [REDACTED] will enhance the liquidity of the Shares which will be freely traded on the Stock Exchange when compared to the limited liquidity of the shares that are privately held before the [REDACTED]. Hence, our Directors consider that the [REDACTED] will enlarge and diversify our shareholder base and potentially lead to a more liquid market in the [REDACTED] of the Shares.

The [REDACTED] does not only provide funds for our Group’s future expansion, but it also generates employee incentive and commitment, strengthens our corporate profile, credibility and competitiveness as well as diversifies shareholder base. For the reasons stated above, our Directors believe that the [REDACTED] is beneficial to us in the long run.

USE OF [REDACTED]

The aggregate [REDACTED] that we expect to receive from the [REDACTED] (after deducting [REDACTED] fees and [REDACTED] and other estimated expenses in connection with the [REDACTED], assuming an [REDACTED] of HK\$[REDACTED] per Share, being the mid-point of the indicative [REDACTED] of HK\$[REDACTED] to HK\$[REDACTED] per Share) will be approximately HK\$[REDACTED] (equivalent to RMB[REDACTED]). We intend to use the [REDACTED] from the [REDACTED] as follows:

- Approximately [REDACTED] of our total estimated [REDACTED], or HK\$[REDACTED] (equivalent to RMB[REDACTED]), will be used for renewing existing IP right licenses and obtaining additional IP right licenses from sports leagues, sports associations and sports clubs for the development of existing and new mobile sports games. For further details, please refer to “Business — Our Strategies — We will renew existing IP right licenses and obtain additional IP right licenses from sports leagues, sports associations and sports clubs for the development of our existing and new mobile sports games” in this document;
- Approximately [REDACTED] of our total estimated [REDACTED], or HK\$[REDACTED] (equivalent to RMB[REDACTED]), will be used for solidifying our marketing efforts to actively promote our games to both PRC and overseas markets. For further details, please refer to “Business — Our Strategies — We will further solidify our marketing efforts to actively promote our games to both PRC and overseas markets” in this document;

FUTURE PLANS AND USE OF [REDACTED]

- Approximately [REDACTED] of our total estimated [REDACTED], or HK\$[REDACTED] (equivalent to RMB[REDACTED]), will be used for further strengthening our talent pool and further improving our research and development capabilities. For further details, please refer to “Business — Our Strategies — We will further strengthen our talent pool in order to support our development of new mobile sports games and further improve our research and development capabilities” in this document; and
- Approximately [REDACTED] of our total estimated [REDACTED], or HK\$[REDACTED] (equivalent to RMB[REDACTED]), will be used for working capital and general corporate purposes.

The following table sets forth our semi-annual planning for use of the [REDACTED] from [REDACTED] to our strategies:

	For the six months ending June 30, 2023 (HK\$'000)	For the six months ending December 31, 2023 (HK\$'000)	For the six months ending June 30, 2024 (HK\$'000)	For the six months ending December 31, 2024 (HK\$'000)	Approximate percentage of total Total (HK\$'000)	[REDACTED]
Renew existing IP right licenses and obtain additional IP right licenses from sports leagues, sports associations and sports clubs for the development of existing and new mobile sports games	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Actively promote our games to both PRC and overseas markets	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Strengthen our talent pool	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Total	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

In the event that the [REDACTED] is fixed below or above the mid-point of the indicative [REDACTED] range, the [REDACTED] allocated to the above purposes will be adjusted on a pro rata basis.

If the [REDACTED] is set at HK\$[REDACTED] per [REDACTED] (being the high-point of the indicative [REDACTED] range), we will receive additional [REDACTED] of approximately HK\$[REDACTED]. If the [REDACTED] is set at HK\$[REDACTED] per [REDACTED] (being the low-point of the [REDACTED]), the [REDACTED] we will receive will be reduced by approximately HK\$[REDACTED]. We intend to apply the [REDACTED] to the above purposes on a pro rata basis.

Should our Directors decide to re-allocate the intended use of [REDACTED] to other business plans to a material extent and/or there be any material modification to the use of [REDACTED] as described above, we will make appropriate announcement(s) in due course.

To the extent that the [REDACTED] of the [REDACTED] are not immediately applied to the above purposes and to the extent permitted by applicable law and regulations, we will only place such funds in short-term interest-bearing deposits at authorized financial institutions and/or licensed banks as defined under SFO and laws in the relevant jurisdiction (where applicable).

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[REDACTED]

[REDACTED]

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[REDACTED]

[REDACTED]

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[REDACTED]

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[REDACTED]

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[REDACTED]

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[REDACTED]

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[REDACTED]

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[REDACTED]

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STRUCTURE OF THE [REDACTED]

[REDACTED]

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STRUCTURE OF THE [REDACTED]

[REDACTED]

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STRUCTURE OF THE [REDACTED]

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STRUCTURE OF THE [REDACTED]

[REDACTED]

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HOW TO APPLY FOR [REDACTED]

[REDACTED]

APPENDIX I

ACCOUNTANT’S REPORT

The following is the text of a report set out on pages I-1 to I-3, received from the Company’s reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this document. It is prepared and addressed to the directors of the Company and to the Sole Sponsor pursuant to the requirements of Hong Kong Standard on Investment Circular Reporting Engagement 200 (HKSIR 200), Accountants’ Reports on Historical Financial Information in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants.



羅兵咸永道

ACCOUNTANT’S REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF GALA TECHNOLOGY HOLDING LIMITED AND UOB KAY HIAN (HONG KONG) LIMITED

Introduction

We report on the historical financial information of Gala Technology Holding Limited (the “**Company**”) and its subsidiaries (together, the “**Group**”) set out on pages I-4 to I-78, which comprises the consolidated statements of financial position as at 31 December 2019, 2020 and 2021 and 30 June 2022, the company statements of financial position as at 31 December 2019, 2020 and 2021 and 30 June 2022, and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the years ended 31 December 2019, 2020 and 2021 and the six months ended 30 June 2022 (the “**Track Record Period**”) and a summary of significant accounting policies and other explanatory information (together, the “**Historical Financial Information**”). The Historical Financial Information set out on pages I-4 to I-78 forms an integral part of this report, which has been prepared for inclusion in the document of the Company dated [REDACTED] (the “**Document**”) in connection with the initial [REDACTED] of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

Directors’ responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountant’s responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200, *Accountants’ Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

APPENDIX I

ACCOUNTANT’S REPORT

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountant’s judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountant considers internal control relevant to the entity’s preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountant’s report, a true and fair view of the financial position of the Company as at 31 December 2019, 2020 and 2021 and 30 June 2022 and the consolidated financial position of the Group as at 31 December 2019, 2020 and 2021 and 30 June 2022 and of its consolidated financial performance and its consolidated cash flows for the Track Record Period in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of the Group which comprises the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six months ended 30 June 2021 and other explanatory information (the “**Stub Period Comparative Financial Information**”). The directors of the Company are responsible for the presentation and preparation of the Stub Period Comparative Financial Information in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountant’s report, is not prepared, in all material respects, in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information.

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APPENDIX I**ACCOUNTANT’S REPORT**

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-4 have been made.

Dividends

We refer to Note 13 to the Historical Financial Information which states that no dividends have been paid by Gala Technology Holding Limited in respect of the Track Record Period.

No statutory financial statements for the Company

No statutory financial statements have been prepared for the Company since its date of incorporation.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

[REDACTED]

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APPENDIX I

ACCOUNTANT’S REPORT

I HISTORICAL FINANCIAL INFORMATION

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountant’s report.

The consolidated financial statements of the Group for the years ended 31 December 2019, 2020 and 2021 and the six months ended 30 June 2022 (the “**Track Record Period**”), on which the Historical Financial Information is based, were audited by PricewaterhouseCoopers in accordance with Hong Kong Standards on Auditing issued by the HKICPA (“**Underlying Financial Statements**”).

The Historical Financial Information is presented in Renminbi and all values are rounded to the nearest thousands (“**RMB’000**”) except when otherwise indicated.

APPENDIX I

ACCOUNTANT’S REPORT

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	<i>Notes</i>	Year ended 31 December			Six months ended 30 June	
		2019 <i>RMB'000</i>	2020 <i>RMB'000</i>	2021 <i>RMB'000</i>	2021 <i>RMB'000</i> (Unaudited)	2022 <i>RMB'000</i>
Revenue	5	378,630	404,745	459,851	180,974	294,775
Cost of revenue	8	(207,529)	(224,354)	(238,324)	(98,332)	(145,910)
Gross profit		171,101	180,391	221,527	82,642	148,865
Other gains/(losses), net	6	669	(4,903)	(1,137)	733	1,034
Other income	7	962	1,931	3,319	1,354	3,594
Selling and marketing expenses	8	(60,278)	(62,889)	(85,590)	(31,992)	(73,445)
General and administrative expenses	8	(23,225)	(21,119)	(34,589)	(22,062)	(17,461)
Research and development expenses	8	(40,092)	(45,232)	(62,705)	(25,689)	(37,508)
(Net impairment losses)/reversal of impairment loss on financial assets		(129)	(3,788)	160	2	(1,772)
Operating profit		49,008	44,391	40,985	4,988	23,307
Finance income, net	10	1,524	401	741	183	570
Profit before income tax		50,532	44,792	41,726	5,171	23,877
Income tax (expense)/credit	11	(4,852)	(4,066)	(2,336)	1,858	(3,551)
Profit and total comprehensive income for the year/period, net of tax		<u>45,680</u>	<u>40,726</u>	<u>39,390</u>	<u>7,029</u>	<u>20,326</u>
Comprehensive income/(loss) attributable to:						
Owners of the Company		46,627	41,498	39,986	7,404	20,374
Non-controlling interests		(947)	(772)	(596)	(375)	(48)
		<u>45,680</u>	<u>40,726</u>	<u>39,390</u>	<u>7,029</u>	<u>20,326</u>
Earnings per share for profit attributable to owners of the Company (RMB per share)						
— Basic and diluted earnings per share	12	<u>46.6</u>	<u>41.5</u>	<u>40.0</u>	<u>7.4</u>	<u>20.4</u>

APPENDIX I

ACCOUNTANT’S REPORT

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		As at 31 December			As at
	Note	2019	2020	2021	30 June
		RMB'000	RMB'000	RMB'000	2022
					RMB'000
Assets					
Non-current assets					
Property, plant and equipment	14	2,113	2,530	4,507	5,905
Right-of-use assets	15	2,610	3,541	12,488	14,445
Intangible assets	16	34,029	26,230	15,018	10,798
Prepayment, deposits and other receivables	19	440	3,669	1,235	8,989
Deferred tax assets	26	<u>5,867</u>	<u>5,171</u>	<u>3,655</u>	<u>4,574</u>
		<u>45,059</u>	<u>41,141</u>	<u>36,903</u>	<u>44,711</u>
Current assets					
Trade receivables	18	27,392	20,321	35,598	52,251
Prepayments, deposits and other receivables	19	8,221	8,535	15,942	18,073
Current income tax receivables		—	250	567	2,928
Amounts due from non-controlling interests	20	1,865	1,865	1,715	675
Amounts due from shareholders	31	120	48	—	—
Amounts due from related parties	31	232	4,136	36	—
Financial assets at fair value through profit or loss	21(a)	—	999	—	—
Contract costs	25	8,723	11,632	13,108	14,870
Short-term bank deposits	22	90	85	83	—
Cash and cash equivalents	22	<u>145,032</u>	<u>163,723</u>	<u>188,410</u>	<u>188,493</u>
		<u>191,675</u>	<u>211,594</u>	<u>255,459</u>	<u>277,290</u>
Total assets		<u>236,734</u>	<u>252,735</u>	<u>292,362</u>	<u>322,001</u>
Equity and liabilities					
Equity attributable to owners of the Company					
Share capital	23(a)	—	—	8	8
Combined capital	23(b)	11,778	11,778	—	—
Other reserves	24	54,937	62,139	79,555	77,452
Retained earnings		<u>61,261</u>	<u>75,557</u>	<u>29,629</u>	<u>50,003</u>
		127,976	149,474	109,192	127,463
Non-controlling interests		<u>(637)</u>	<u>(1,409)</u>	<u>(1,879)</u>	<u>(864)</u>
Total equity		<u>127,339</u>	<u>148,065</u>	<u>107,313</u>	<u>126,599</u>

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APPENDIX I

ACCOUNTANT’S REPORT

		As at 31 December			As at
	<i>Note</i>	2019	2020	2021	30 June
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Liabilities					
Non-current liabilities					
Trade payables	27	9,715	—	—	—
Other payables	28	68	208	306	455
Lease liabilities	15	<u>600</u>	<u>1,484</u>	<u>7,830</u>	<u>7,986</u>
		<u>10,383</u>	<u>1,692</u>	<u>8,136</u>	<u>8,441</u>
Current liabilities					
Trade payables	27	43,307	41,031	30,617	31,982
Other payables and accruals	28	26,690	27,810	39,632	35,202
Contract liabilities	25	20,541	28,934	35,853	42,823
Current income tax liabilities		6,737	3,121	611	3,262
Lease liabilities	15	1,737	2,082	4,558	6,736
Financial liability at fair value through profit or loss	21(b)	<u>—</u>	<u>—</u>	<u>65,642</u>	<u>66,956</u>
		<u>99,012</u>	<u>102,978</u>	<u>176,913</u>	<u>186,961</u>
Total liabilities		<u>109,395</u>	<u>104,670</u>	<u>185,049</u>	<u>195,402</u>
Total equity and liabilities		<u><u>236,734</u></u>	<u><u>252,735</u></u>	<u><u>292,362</u></u>	<u><u>322,001</u></u>

APPENDIX I

ACCOUNTANT’S REPORT

STATEMENTS OF FINANCIAL POSITION OF THE COMPANY

		As at 31 December			As at
	Note	2019	2020	2021	30 June
		RMB'000	RMB'000	RMB'000	2022
					RMB'000
Assets					
Non-current assets					
Investment in a subsidiary		8	8	112,806	112,806
Current assets					
Prepayments	19	5,090	5,081	7,434	11,116
Amount due from a subsidiary	31	—	—	35,956	31,083
Cash and cash equivalents	22	—	—	11	93
Total assets		<u>5,098</u>	<u>5,089</u>	<u>156,207</u>	<u>155,098</u>
(Deficits)/equity and liabilities					
(Deficits)/equity					
Share capital	23(a)	—	—	8	8
Other reserve	24	—	—	112,798	112,798
Accumulated losses		<u>(7,569)</u>	<u>(12,321)</u>	<u>(30,951)</u>	<u>(35,225)</u>
Total (deficits)/equity		<u>(7,569)</u>	<u>(12,321)</u>	<u>81,855</u>	<u>77,581</u>
Current liabilities					
Amounts due to subsidiaries	31	11,557	15,188	4,360	5,343
Other payables and accruals	28	1,110	2,222	4,350	5,218
Financial liability at fair value through profit or loss	21(b)	—	—	65,642	66,956
Total liabilities		<u>12,667</u>	<u>17,410</u>	<u>74,352</u>	<u>77,517</u>
Total (deficits)/equity and liabilities		<u>5,098</u>	<u>5,089</u>	<u>156,207</u>	<u>155,098</u>

APPENDIX I

ACCOUNTANT’S REPORT

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Note	Attributable to owners of the Company						Non-controlling interests	Total equity
		Share capital	Combined capital	Other reserves	Retained earnings	Total			
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000		
Balance at 1 January 2019		—	11,778	48,533	21,038	81,349	310		81,659
Comprehensive income/(loss)									
Profit/(loss) for the year		—	—	—	46,627	46,627	(947)		45,680
Total comprehensive income/(loss)		—	—	—	46,627	46,627	(947)		45,680
Transactions with owners in their capacity as owners									
Appropriation to statutory reserves	24	—	—	6,404	(6,404)	—	—		—
Total transactions with owners in their capacity as owners		—	—	6,404	(6,404)	—	—		—
Balance at 31 December 2019		—	11,778	54,937	61,261	127,976	(637)		127,339
Balance at 1 January 2020		—	11,778	54,937	61,261	127,976	(637)		127,339
Comprehensive income/(loss)									
Profit/(loss) for the year		—	—	—	41,498	41,498	(772)		40,726
Total comprehensive income/(loss)		—	—	—	41,498	41,498	(772)		40,726
Transactions with owners in their capacity as owners									
Appropriation to statutory reserves	24	—	—	7,202	(7,202)	—	—		—
Dividends	13	—	—	—	(20,000)	(20,000)	—		(20,000)
Total transactions with owners in their capacity as owners		—	—	7,202	(27,202)	(20,000)	—		(20,000)
Balance at 31 December 2020		—	11,778	62,139	75,557	149,474	(1,409)		148,065

APPENDIX I

ACCOUNTANT’S REPORT

	<i>Note</i>	Attributable to owners of the Company					Non-controlling	
		Share capital <i>RMB'000</i>	Combined capital <i>RMB'000</i>	Other reserves <i>RMB'000</i>	Retained earnings <i>RMB'000</i>	Total <i>RMB'000</i>	interests <i>RMB'000</i>	Total equity <i>RMB'000</i>
Balance at 1 January 2021		—	11,778	62,139	75,557	149,474	(1,409)	148,065
Comprehensive income/(loss)								
Profit/(loss) for the year		—	—	—	39,986	39,986	(596)	39,390
Total comprehensive income/(loss)		—	—	—	39,986	39,986	(596)	39,390
Transactions with owners in their capacity as owners								
Issuance of shares pursuant to the reorganisation	23(a)	8	—	—	—	8	—	8
Appropriation to statutory reserves	24	—	—	5,914	(5,914)	—	—	—
Reclassification of combined capital and capital reserve to other reserve pursuant to the reorganisation	23(b)	—	(11,778)	11,778	—	—	—	—
Acquisition of non-controlling interests in a subsidiary	24	—	—	(276)	—	(276)	126	(150)
Dividends	13	—	—	—	(80,000)	(80,000)	—	(80,000)
Total transactions with owners in their capacity as owners		8	(11,778)	17,416	(85,914)	(80,268)	126	(80,142)
Balance at 31 December 2021		8	—	79,555	29,629	109,192	(1,879)	107,313
Balance at 1 January 2022		8	—	79,555	29,629	109,192	(1,879)	107,313
Comprehensive income/(loss)								
Profit/(loss) for the period		—	—	—	20,374	20,374	(48)	20,326
Total comprehensive income/(loss)		—	—	—	20,374	20,374	(48)	20,326
Transactions with owners in their capacity as owners								
Acquisition of non-controlling interests in a subsidiary	24	—	—	(2,103)	—	(2,103)	1,063	(1,040)
Total transactions with owners in their capacity as owners		—	—	(2,103)	—	(2,103)	1,063	(1,040)
Balance at 30 June 2022		8	—	77,452	50,003	127,463	(864)	126,599

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APPENDIX I

ACCOUNTANT’S REPORT

	<i>Note</i>	Attributable to owners of the Company					Non-	Total equity
		Share capital <i>RMB'000</i>	Combined capital <i>RMB'000</i>	Other reserves <i>RMB'000</i>	Retained earnings <i>RMB'000</i>	Total <i>RMB'000</i>	controlling interests <i>RMB'000</i>	
(Unaudited)								
Balance at 1 January 2021		<u>—</u>	<u>11,778</u>	<u>62,139</u>	<u>75,557</u>	<u>149,474</u>	<u>(1,409)</u>	<u>148,065</u>
Comprehensive income/(loss)								
Profit/(loss) for the period		<u>—</u>	<u>—</u>	<u>—</u>	<u>7,404</u>	<u>7,404</u>	<u>(375)</u>	<u>7,029</u>
Total comprehensive income/(loss)		<u>—</u>	<u>—</u>	<u>—</u>	<u>7,404</u>	<u>7,404</u>	<u>(375)</u>	<u>7,029</u>
Transactions with owners in their capacity as owners								
Issuance of shares pursuant to the reorganisation	23(a)	8	—	—	—	8	—	8
Reclassification of combined capital and capital reserve to other reserve pursuant to the reorganisation	23(b)	—	(11,778)	11,778	—	—	—	—
Acquisition of non-controlling interests in a subsidiary	24	—	—	(276)	—	(276)	126	(150)
Dividends	13	<u>—</u>	<u>—</u>	<u>—</u>	<u>(80,000)</u>	<u>(80,000)</u>	<u>—</u>	<u>(80,000)</u>
Total transactions with owners in their capacity as owners		<u>8</u>	<u>(11,778)</u>	<u>11,502</u>	<u>(80,000)</u>	<u>(80,268)</u>	<u>126</u>	<u>(80,142)</u>
Balance at 30 June 2021		<u><u>8</u></u>	<u><u>—</u></u>	<u><u>73,641</u></u>	<u><u>2,961</u></u>	<u><u>76,610</u></u>	<u><u>(1,658)</u></u>	<u><u>74,952</u></u>

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CONSOLIDATED STATEMENTS OF CASH FLOWS

		Year ended 31 December			Six months ended 30 June	
	Note	2019	2020	2021	2021	2022
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(Unaudited)	
Cash flows from operating activities						
Cash generated from operations	29(a)	94,840	83,938	70,000	5,174	14,950
Interest received	10	1,221	1,013	1,478	562	1,067
Income tax paid		(5,428)	(7,236)	(3,647)	(3,445)	(4,182)
Net cash generated from operating activities		90,633	77,715	67,831	2,291	11,835
Cash flows from investing activities						
Purchases of property, plant and equipment	14	(923)	(2,065)	(4,618)	(1,664)	(2,504)
Purchase of intangible assets		(13,570)	(23,622)	(19,500)	(8,453)	(6,514)
Purchase of financial assets at fair value through profit or loss	21(a)	(55,500)	(104,709)	(111,500)	(74,600)	(19,800)
Proceeds from disposal of financial assets at fair value through profit or loss	21(a)	65,826	104,044	112,984	59,810	19,845
Advance to shareholders	31	(1,015)	—	—	—	—
Repayment from shareholders	31	1,064	72	48	48	—
Advance to related parties	31	(300)	(4,000)	—	—	—
Repayment from related parties	31	72	96	4,100	4,052	36
(Payment for addition)/proceeds from disposal of short-term deposits		(2)	5	2	2	83
Net cash used in investing activities		(4,348)	(30,179)	(18,484)	(20,805)	(8,854)
Cash flows from financing activities						
Issuance of shares pursuant to the reorganisation		—	—	8	8	—
Issuance of a financial liability at fair value through profit or loss	21(b)/29(c)	—	—	64,163	64,163	—
Payment for [REDACTED] expenses		[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Payment for principal elements of lease liabilities	29(c)	(2,654)	(2,392)	(4,151)	(1,240)	(2,746)
Interest paid	29(c)	(195)	(172)	(437)	(79)	(349)
Dividends paid	29(c)	(8,000)	(20,000)	(80,000)	(80,000)	—
Net cash used in financing activities		(12,012)	(23,174)	(23,326)	(19,741)	(4,265)
Net increase/(decrease) in cash and cash equivalents		74,273	24,362	26,021	(38,255)	(1,284)
Cash and cash equivalents at beginning of the year/period	22	69,051	145,032	163,723	163,723	188,410
Exchange difference		1,708	(5,671)	(1,334)	(692)	1,367
Cash and cash equivalents at end of the year/period	22	145,032	163,723	188,410	124,776	188,493

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NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1 GENERAL INFORMATION, REORGANISATION AND BASIS OF PRESENTATION

1.1 General information

Gala Technology Holding Limited (the “**Company**”) was incorporated in the Cayman Islands on 12 June 2018 as an exempted company with limited liability under the Companies Act (as revised) of the Cayman Islands. The address of the Company’s registered office is PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

The Company is an investment holding company and its subsidiaries (together, the “**Group**”) are principally engaged in the mobile sports game development, publishing and operation (the “[REDACTED] **Business**”) in the People’s Republic of China (the “**PRC**”).

1.2 Reorganisation of the Group

Prior to the Reorganisation (as defined below), the [REDACTED] Business was mainly carried out by Shenzhen Wangchen Technology Co., Ltd (“**Wangchen Technology**”) and its subsidiaries, in which Wangchen Technology effectively holds 100%, 100% and 60% equity interests in Gala Sports Technology Limited (“**Gala Sports HK**”), Shenzhen Moji Technology Co., Ltd (“**Moji Technology**”) and Shenzhen Chuangzhen Shijie Technology Co., Ltd (“**Chuangzhen Shijie**”), respectively. Wangchen Technology and Moji Technology together refer as the “PRC Operating Entities” thereafter.

In preparation for the [REDACTED] of the Company’s Shares as the Main Board of the Stock Exchange of Hong Kong Limited (the “[REDACTED]”), the Group underwent a group reorganisation (the “**Reorganisation**”) which principally involved the following key steps:

(1) Incorporation of the Company

On 12 June 2018, the Company was incorporated in the Cayman Islands with limited liability and authorised share capital of HK\$380,000 divided into 38,000,000 ordinary shares of HK\$0.01 each, of which one share was issued and allotted to an initial subscriber at par. On the same day, the said one share was transferred to Great Shine (as defined below) at par. On 20 June 2018, 9,999 shares were issued and allotted at par to Great Shine Holding Limited (“**Great Shine**”), and 10,000 shares were issued and allotted at par to High Triumph Holding Limited (“**High Triumph**”), Neo Honour Holding Limited (“**Neo Honour**”), Joyful Treasure Holding Limited (“**Joyful Treasure**”) and Mighty Yellow Holding Limited (“**Mighty Yellow**”), respectively. The Company was then owned as to 20% each by Great Shine, High Triumph, Neo Honour, Joyful Treasure and Mighty Yellow.

On 26 November 2020, the Company repurchased and cancelled 10,000 shares held by Joyful Treasure at a consideration of HK\$100.

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(2) Incorporation of other offshore holding companies

On 4 July 2018, Gala Technology International Limited (“**Gala Technology (BVI)**”) was incorporated in the British Virgin Islands (“**BVI**”) with limited liability as a wholly-owned subsidiary of the Company.

On 6 August 2018, Gala Technology (Hong Kong) Limited (“**Gala Technology (HK)**”) was incorporated in Hong Kong with limited liability as a wholly-owned subsidiary of Gala Technology (BVI).

(3) Establishment of the wholly foreign owned enterprise

On 30 July 2019, Shenzhen Wangchen Moji Technology Co., Ltd (“**Shenzhen Wangchen Moji**” or the “**WFOE**”) was incorporated in the PRC with limited liability as a wholly-owned subsidiary of Gala Technology (HK).

(4) Transfer of equity interest of Chuangzhen Shijie, Yingnuo Ruier and Gala Sports HK

On 10 December 2019, the Group completed the transfers of a 60% equity interest in Chuangzhen Shijie from Wangchen Technology to the WFOE at a total consideration of RMB2.

On 12 December 2019, the Group completed the transfer of a 1% equity interest in Shenzhen Yingnuo Ruier Technology Partnership Enterprise (Limited Partnership) (“**Yingnuo Ruier**”) from Moji Technology to the WFOE at a total consideration of RMB2.

On 6 May 2021, the Group completed the transfer of 100% equity interest in Gala Sports HK from Wangchen Technology to Gala Technology (BVI) at a consideration of RMB3,155,880. Gala Sports HK became a wholly-owned subsidiary of Gala Technology (BVI).

(5) Entering into of the Contractual Arrangements

On 13 May 2021, the WFOE entered into various agreements (the “**Contractual Arrangements**”) with Wangchen Technology and its registered shareholders, pursuant to which the WFOE controls the PRC Operating Entities by way of exposing to, or has rights to variable returns from its investment with the PRC Operating Entities and has the ability to affect those returns through its power over the PRC Operating Entities. For further details on the Contractual Arrangements, please refer to Note 2.2 (a).

On 14 May 2021, the Company issued and allotted a total of 960,000 shares to the offshore investment vehicles of the beneficial owners of Wangchen Technology to reflect their original beneficial shareholding in Wangchen Technology at the Company’s level.

Upon completion of the Reorganisation, the Company became the holding company of the companies comprising the Group.

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Upon completion of the Reorganisation and as at the date of this report, the Company had direct or indirect interests in the following subsidiaries:

Name of subsidiaries	Place and date of incorporation establishment	Particulars of issued and paid-in capital	Equity interest held as at				Date of this report	Principal activities	Note
			31 December			30 June			
			2019	2020	2021	2022			
Directly held by the Company									
Gala Technology International Limited	The BVI, 4 July 2018	HK\$10,000	100%	100%	100%	100%	100%	Investment holding	(a)
Indirectly held by the Company									
Gala Sports Technology Limited	Hong Kong, 17 April 2012	HK\$10,000	100%	100%	100%	100%	100%	Mobile sports game development, publishing and operation	(b)
Gala Technology (Hong Kong) Limited	Hong Kong, 6 August 2018	HK\$1	100%	100%	100%	100%	100%	Investment holding	(c)
Shenzhen Wangchen Moji Technology Co., Ltd* 深圳市望塵莫及科技有限公司	The PRC, 30 July 2019	2019 and 2020: RMB10,000,000 2021 and 2022: RMB42,000,000	100%	100%	100%	100%	100%	2019 and 2020: Investment holding 2021 and 2022: Technical support, consulting and other services	(f)
Shenzhen Wangchen Technology Co., Ltd* 深圳市望塵科技有限公司	The PRC, 20 December 2013	RMB11,777,778	100%	100%	100%	100%	100%	Mobile sports game development, publishing and operation	(d), (e)
Shenzhen Moji Technology Co., Ltd* 深圳市莫及科技有限公司	The PRC, 8 July 2016	RMB1,000,000	100%	100%	100%	100%	100%	Mobile sports game development, publishing and operation	(a), (d)
Shenzhen Chuangzhen Shijie Technology Co., Ltd* 深圳市創真視界科技有限公司	The PRC, 21 December 2016	RMB5,000,000	60%	60%	63%	84%	84%	Research, experiment and development	(a), (g)

* The English name of certain companies referred herein represent management’s best effort at translating the Chinese names of those companies as no English names have been registered.

Notes:

- (a) No audited financial statements have been prepared for these companies as there is no statutory audit requirement under the relevant rules and regulations in the territories.
- (b) The statutory financial statements for the years ended 31 December 2019, 2020 and 2021 were audited by Global Vision CPA Limited.
- (c) The statutory financial statements for the period ended from 6 August 2018 to 31 December 2019 and the years ended 31 December 2020 and 2021 were audited by Global Vision CPA Limited.

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- (d) The Group does not have legal ownership in the equity of these subsidiaries. Nevertheless, under the Contractual Agreements entered among the Wangchen Technology, its registered shareholders and the WFOE, the Group controls these entities by way of exposing to, or has rights to, variable returns from its investment with the entities and has the ability to affect those returns through its power over these entities. In addition, the Contractual Agreements also transfer the risk and rewards of these subsidiaries to the Group. As a result, they are presented as consolidating subsidiaries of the Group.
- (e) The statutory financial statements for the years ended 31 December 2019, 2020 and 2021 were audited by 深圳華碩會計師事務所(普通合夥)(Shenzhen Huashuo Certified Public Accountants (General Partnership)).
- (f) No audited financial statements have been prepared for this company as there is no statutory audit requirement under the relevant rules and regulations in the territories for the year ended 31 December 2019 and 2020. The statutory financial statement for the year ended 31 December 2021 was audited by 深圳華碩會計師事務所(普通合夥)(Shenzhen Huashuo Certified Public Accountants (General Partnership)).
- (g) On 6 January 2022, a non-controlling interest transferred its 21% equity interest in Chuangzhen Shijie to the WFOE. As a result, the Group’s equity interest in Chuangzhen Shijie has increased to 84%.

1.3 Basis of presentation

Immediately prior to and after the Reorganisation, the [REDACTED] Business was carried out by Wangchen Technology and its subsidiaries. Pursuant to the Reorganisation, the [REDACTED] Business are transferred to and ultimately held by the Company. The Company and those intermediate holding companies newly set up during the Reorganisation have not been involved in any other business prior to the Reorganisation and their operations do not meet the definition of a business. The Reorganisation is merely a recapitalisation of the [REDACTED] Business with no change in management of such business and the ultimate owners of the [REDACTED] Business remain the same. Accordingly, the Group resulting from the Reorganisation is regarded as a continuation of the [REDACTED] Business conducted through the Company and the Historical Financial information of the companies now comprising the Group is presented using the respective carrying value of the [REDACTED] Business for all periods presented.

Intercompany transactions, balances and unrealised gains/losses on transactions between subsidiaries now comprising the Group are eliminated upon consolidation.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the Historical Financial Information are set out below. These policies have been consistently applied throughout the Track Record Period, unless otherwise stated.

2.1 Basis of preparation

The Historical Financial Information has been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA. The Historical Financial Information has been prepared under the historical cost convention, except for financial assets at fair value through profit or loss and a financial liability at fair value through profit or loss which are measured at fair values.

The preparation of the Historical Financial Information in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in Note 4.

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All new standards, amendments to standards and interpretations which are mandatory for the financial year beginning 1 January 2022 and before, are also consistently applied to the Group throughout the Track Record Period.

New standards, amendments to existing standards and interpretation not yet adopted

A number of new standards, amendments to standards and interpretation are effective for annual periods beginning after 1 January 2022 and have not been applied in preparing this Historical Financial Information. None of these is expected to have a significant effect on the Historical Financial Information of the Group.

		Effective for accounting period beginning on or after
HKFRS 17	Insurance contracts	1 January 2023
Amendments to HKFRS 17	Amendments to HKFRS 17	1 January 2023
Hong Kong Interpretation 5 (2020)	Hong Kong Interpretation 5 (2020) Presentation of financial statements — Classification by the borrower of a term loan that contains a repayment on demand clause	1 January 2023
Amendments to HKAS 1	Classification of liabilities as current or non-current	1 January 2023
Amendments to HKAS 12	Deferred tax related to assets and liabilities arising from a single transaction	1 January 2023
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of accounting policies	1 January 2023
Amendments to HKAS 8	Definition of accounting estimates	1 January 2023
Amendments to HKFRS 4	Extension of the temporary exemption from applying HKFRS 9	1 January 2023
HKFRS 16 (Amendments)	Lease liability in a sales and leaseback	1 January 2024
HKAS 1 (Amendments)	Classification of liabilities as current or non-current	1 January 2024
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

The Group has already commenced an assessment of the impact of these new standards, amendments to existing standards and interpretation. According to the preliminary assessment made by the directors, no significant impact on the financial performance and position of the Group is expected when they become effective.

2.2 Principles of consolidation

(a) Subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Except for the Reorganisation, the acquisition method of accounting is used to account for business combinations by the Group (refer to Note 2.3).

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Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed when necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of financial position respectively.

Subsidiaries arising from Reorganisation

The WFOE has entered into the Contractual Arrangements with Wangchen Technology and its registered shareholders, which enable the WFOE and the Group to:

- Exercise effective control over the PRC Operating Entities;
- Exercise equity holders’ voting rights of the PRC Operating Entities;
- Receive substantially all of the economic interests and returns generated by the PRC Operating Entities in consideration for the business support, technical and consulting services provided by the WFOE, at the WFOE’s discretion;
- Obtain an irrevocable and exclusive right to purchase all equity interests in Wangchen Technology from its registered shareholders at a nominal consideration unless the relevant government authorities request that another amount be used as the purchase consideration and in which case the purchase consideration shall be such amount. Where the purchase consideration is required by the relevant government authorities to be an amount other than a nominal amount, the registered shareholders of Wangchen Technology shall return the amount of purchase consideration they have received to the WFOE. At the WFOE’s request, the registered shareholders of Wangchen Technology will promptly and unconditionally transfer their respective equity interests in Wangchen Technology to WFOE (or its designee within the Group) after the WFOE exercises its purchase right;
- Obtain pledges over the entire equity interests in Wangchen Technology from its registered shareholders to secure, among others, performance of their obligations under the Contractual Arrangement;
- The Group does not have any equity interest in the PRC Operating Entities. However, as a result of the Contractual Arrangement, the Group has rights to variable returns from its involvement with the PRC Operating Entities and has the ability to affect those returns through its power over the PRC Operating Entities and is considered to control the PRC Operating Entities. Consequently, the Company regards the PRC Operating Entities as indirect subsidiaries under HKFRSs.

(b) Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of the Company.

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2.3 Business combinations

The acquisition method of accounting is used to account for business combinations, except for the Reorganisation, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred,
- liabilities incurred to the former owners of the acquired business,
- equity interests issued by the Group,
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest’s proportionate share of the acquired entity’s net identifiable assets.

Acquisition-related costs are expensed as incurred.

The excess of the

- consideration transferred,
- amount of any non-controlling interest in the acquired entity, and
- acquisition-date fair value of any previous equity interest in the acquired entity

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in the profit or loss as a bargain purchase.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in the profit or loss.

2.4 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee’s net assets including goodwill.

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2.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Executive Directors that make strategic decisions.

2.6 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group’s entities are measured using the currency of the primary economic environment in which the entity operates (‘the **functional currency**’). The consolidated financial statements are presented in Renminbi (“**RMB**”), which is the Company’s functional and the Group’s presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss.

All foreign exchange gains and losses are presented in the profit or loss on a net basis.

Non-monetary items that are measured at fair values in a foreign currency are translated using the exchange rates at the date when the fair values was determined. Translation differences on assets and liabilities carried at fair values are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in the profit or loss as part of the fair value gain or loss.

2.7 Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset’s carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for a separate asset is derecognised when replaced. All other repairs and maintenance are charged to the profit or loss during the reporting period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost, net of their residual values over their estimated useful lives, as follows:

Furniture and fixtures	20% to 33%
Computers and other equipment	20% to 33%
Leasehold improvements	33% or over lease terms, whichever is shorter

The assets’ residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset’s carrying amount is written down immediately to its recoverable amount if the asset’s carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount.

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2.8 Intangible assets

(a) Licenses

Under certain licensing arrangements entered between the Group and the licensors, the Group pays upfront license fees to the licensors as the Group is entitled to the non-exclusive rights to use the intellectual properties in specified geographic areas for certain period of time. License have a definite useful life and carried at amortised cost less accumulated amortisation and accumulated impairment loss, if any. They are initially measured at fair value of the consideration required at the time of the acquisition. The consideration required represents the non-cancellable upfront fee and the capitalised present values of the fixed royalty fee to be made in subsequent years in respect of the acquisition of the licenses.

Licenses are amortised on a straight-line basis in accordance to the license period for 1 to 4 years. These amortisation are expensed to cost of revenues (where the games are commercially launched) or general and administrative expenses (where the games are not yet commercially launched).

Payment of upfront license fees for the cancellable licenses are recognised as prepayment in the consolidated statements of financial position and amortised on a straight-line basis in accordance to the license period.

(b) Research and development expenditures

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are capitalised as intangible assets when recognition criteria are fulfilled.

These criteria includes: (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.

Development costs previously recognised as expenses are not recognised as assets in subsequent periods. Capitalised development costs are amortised from the point at which the assets are ready for use on a straight-line basis over their useful lives.

Research and development expenses consist primarily of salary and benefits for the Group’s research and development personnel.

During the Track Record Period, all research and development expenditures were recognised in profit or loss as they do not meet the recognition criteria for capitalisation.

(c) Software

The Group’s acquired software license mainly consists of financial and operation system software license. Acquired software are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful life (1 to 10 years). Such useful life of the intangible assets is determined based on the contractual terms of the acquired software or their current functionalities and the Group’s daily operation needs. Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred.

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2.9 Impairment of non-financial assets

Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset’s fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.10 Investments and other financial assets

(a) Classification

The classification depends on the entity’s business model for managing the financial assets and the contractual terms of the cash flows.

Financial assets are classified in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income or through profit or loss), and
- those to be measured at amortised cost.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

During the Track Record Period, the Group classifies its financial assets as those to measured amortised cost and those to be measured subsequently at fair value through profit or loss.

(b) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(c) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

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Subsequent measurement of debt instruments depends on the Group’s business model for managing the asset and the cash flow characteristics of the asset. There are two measurement categories into which the Group classifies its debt instruments:

Amortised cost

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in other income using the effective interest rate method. Interest income is presented as finance income, net where it is earned from financial assets that are held for cash management purposes. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses), net together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the profit or loss, if any.

Financial assets at fair value through profit or loss

Assets that do not meet the criteria for amortised cost or fair value through other comprehensive income are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss is recognised in profit or loss and presented net, within other gains/(losses), net in the period in which it arises.

(d) Impairment

The Group assesses on a forward looking basis the expected credit losses (“ECL”) associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

Impairment on other financial assets carried at amortised cost is measured as either 12-month ECL or lifetime ECL, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a financial assets carried at amortised cost has occurred since initial recognition, then impairment is measured as lifetime ECL.

2.11 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statements of financial position when the Group currently has a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The Group has also entered into arrangements that do not meet the criteria for offsetting but still allow for the related amounts to be set off in certain circumstances, such as bankruptcy or the termination of a contract.

2.12 Trade receivables

Trade receivables are amounts due from distribution and payment channels for proceeds earned from selling game tokens or other virtual items in the ordinary course of business. If collection of trade receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

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2.13 Cash and cash equivalents

In the consolidated statements of cash flows, cash and cash equivalents include cash on hand and deposits held at call with banks with original maturity dates within 3 months or less.

2.14 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

2.15 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.16 Contract liabilities and contract costs

Contract liabilities primarily consist of the unamortised revenue from sales of game tokens and virtual items for mobile games, where there is still an implied obligation to be provided by the Group and will be recognised as revenue when all of the revenue recognition criteria are met.

Incremental costs of obtaining a contract, including unamortised commission charged by distribution and payment channels and unamortised revenue sharing to the publishers are capitalised if they are expected to be recovered. Capitalised contract costs are amortised on a systematic basis consistent with the pattern of the transfer of the goods or services to which the asset relates.

2.17 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period’s taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses. Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and considers whether it is not probable that a taxation authority will accept an uncertain tax treatment. The Group measures its tax balances either based on the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty.

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(b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated statements of financial position. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss and does not give rise to equal taxable and deductible temporary differences. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

(c) Offsetting

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

2.18 Employee benefits

(a) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision, where appropriate, is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(b) Defined contribution plans

The Group’s companies incorporated in the PRC contribute based on certain percentage of the salaries of the employees to a defined contribution retirement benefit plan and other defined contribution social security plans organised by relevant government authorities in the PRC on a monthly basis. The government authorities undertake to assume the retirement benefit obligations payable and other social security payables to all existing and future retired employees under these plans and the Group has no further obligation beyond the contributions made. Contributions to these plans are expenses as incurred. Assets of the plans are held and managed by government authorities and are separate from those of the Group.

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2.19 Share-based payments

The Group has various equity-settled share-based compensation, under which the entity receives services from employees as consideration for equity instruments of the Group. The fair value of the employee services received in exchange for the grant of equity instruments is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the equity instruments granted:

- including any market performance conditions;
- excluding the impact of any service and non-market performance vesting conditions; and
- including the impact of any non-vesting conditions.

Non-market performance and service conditions are included in assumptions about the number of equity instruments that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the Group revises its estimates of the number of share options that are expected to vest based on non-marketing vesting conditions. It recognises the impact of the revision to estimates, if any, in the profit or loss with corresponding adjustment to equity.

2.20 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.21 Financial liability at fair value through profit or loss

The Group designated the convertible bonds (Note 21(b)) as a financial liability at fair value through profit or loss, which is initially recognised at fair value. Any directly attributable transaction costs are recognised in profit or loss. Subsequent to initial recognition, the component of fair value changes relating to the Company’s own credit risk is recognised in other comprehensive income. Amounts recorded in other comprehensive income related to credit risk are not subject to recycling in profit or loss, but are transferred to retained earnings when realised. Fair value changes relating to market risk are recognised in profit or loss.

2.22 Revenue recognition

Revenues are recognised when or as the control of the goods or services is transferred to the customer. Depending on the terms of the contract and the laws that apply to the contract, control of the goods and services may be transferred over time or at a point in time.

Game revenue

The Group is a mobile sports game developer, publisher and operator. Revenue from self-development games of the Group are derived principally from various arrangements, including game published by the Group through its platforms or third-party distribution channels (“**Distribution Channels**”), and game published by other third party game publishers (“**Publishers**”) under various game distribution arrangements.

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(a) Revenue from online game published by the Group

The mobile games published by the Group which are operated under a free-to-play model whereby game players can download the games free of charge and are charged for the purchase of in-game virtual items via payment channels, such as various mobile carriers and third-party internet payment systems (collectively referred to as “**Payment Channels**”, Distribution Channels and Payment Channels, collectively referred to as “**Platforms**”). The Platforms are entitled to a handling fees which are withheld and deducted from the gross proceeds collected from the game players, with the net amounts remitted to the Group. The payment received from game players regarding purchase of game tokens and other virtual items is non-refundable and the related contracts are non-cancellable.

The Group recognises the revenue on a gross basis, with the commission charged by the Platforms as the cost of revenue. The revenue and the cost of revenue are recognised rateably over the estimated playing period of paying players (“**Paying Players**”), given there is an implicit obligation of the Group to maintain and allow access of the users of the games operated by the Group.

(b) Revenue from online game published by Publishers under game distribution arrangements

The Group also grants Publishers rights to publish its mobile games through Publisher’s own platforms, including web-based portals, or other platforms, including online application stores installed in mobile.

These games are also under 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. Proceeds earned from selling game tokens and other virtual items are collected by the Publishers or its designated Platforms and shared between the Group and the Publishers based on a pre-determined rate.

With respect to the arrangement that the Group is responsible for providing game product, technical support and upgrades, other daily game operation and the right to determine the ultimate pricing of in-game virtual items, the Publishers are only responsible for publishing, providing payment solution, customer service and promotion, and the Publishers are the agents in the transactions.

The Group recognises the revenue on a gross basis, with the commission charged by the Platforms and revenue sharing to the Publishers as the cost of revenue. The revenue and the cost of revenue are recognised rateably over the estimated playing period of Paying Players, given there is an implicit obligation of the Group to maintain and allow access of the users of the games operated by the Group.

Timing of revenue recognition

As the Group is acting as a principal to the game players, it has determined that it is obligated to provide on-going services to the game players who purchased virtual items to gain an enhanced game-playing experience over an average playing period of the Paying Players, and accordingly, the Group recognises the revenues rateably over the estimated average playing period of these Paying Players, starting from the point in time when game tokens or other virtual items are delivered to the players’ accounts, and all other revenue recognition criteria are met. As the games are under a free-to-play model and revenue is generated from Paying Players when they purchase game points for in-game virtual items, the Group focuses on the playing period of Paying Players when estimating the period over which revenue is being recognised.

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For the purposes of determining when services have been provided to the respective Paying Players, the Group has determined the following:

- Consumable virtual items represent items that are extinguished after consumption in the form of fixed charges levied on each round of games played. The Paying Players will not continue to benefit from the virtual items thereafter. Revenue is recognised (as a release from contract liabilities) when the items are consumed and the related services are rendered.
- Durable virtual items represent items that are accessible and beneficial to Paying Players over an extended period of time. Revenue is recognised rateably over the average life of durable virtual items for the applicable game, which the Group makes best estimates to be average playing period of Paying Players (“**Player Relationship Period**”).

For the Player Relationship Period, the Group tracks each of the Paying Players’ purchases and log in history for each significant game to estimate the average playing period of the Paying Players. If a new game is launched and only a limited period of Paying Player data is available, then the Group considers other qualitative factors, such as the playing patterns of paying users for other games with similar characteristics. The Player Relationship Period is assessed on a game-by-game basis.

If the Group does not have the ability to differentiate revenue attributable to durable virtual items from consumable virtual items for a specific game, the Group recognises revenue from both durable and consumable virtual items for that game rateably over the Player Relationship Period.

While the Group believes its estimates to be reasonable based on available game player information, it may revise such estimates in the future as the games’ operation periods change, sufficient individual game data become available, or there is indication that the similarities in characteristics and playing patterns of Paying Players of the games change. Any adjustments arising from changes in Player Relationship Period would be applied prospectively on the basis that such changes are caused by new information indicating a change in game player behaviour patterns. Any changes in the Group’s Player Relationship Period may result in revenues being recognised on a basis different from prior periods’ and may cause its operating results to fluctuate.

2.23 Interest income

Interest income from financial assets at fair value through profit or loss is included in the other gains/(losses), net in the profit or loss.

Interest income on financial assets measured at amortised cost calculated using the effective interest method is recognised in the profit or loss as part of other income.

Interest income is presented as finance income, net where it is earned from financial assets that are held for cash management purposes.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

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2.24 Earnings per share

(i) *Basic earnings per share*

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares outstanding during the financial year.

(ii) *Diluted earnings per share*

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after-income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

2.25 Leases

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset’s useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of fixed payments (including in-substance fixed payments), less any lease incentives receivable.

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the Group’s incremental borrowing rate.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received; and
- restoration costs.

Payments associated with short-term leases are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

2.26 Dividend distribution

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

2.27 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the profit or loss over the period necessary to match them with the costs that they are intended to compensate.

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3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group’s activities expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group’s overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group’s financial performance. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner. Because of the simplicity of the financial structure and the current operations of the Group, no hedging activities are undertaken by management.

(a) Market risk

(i) Foreign exchange risk

The Group’s foreign currency transactions are mainly denominated in United States dollar (“US\$”), European dollar (“EUR”) and Hong Kong dollar (“HK\$”). The majority of assets and liabilities are denominated in RMB, US\$, EUR and HK\$ and there are no significant assets and liabilities denominated in other currencies. The Group is subject to foreign exchange rate risk arising from future commercial transactions and recognised assets and liabilities denominating in a currency other than RMB, which is the functional currency of the major operating companies within the Group. The Group does not hedge its foreign currency exposure during the Track Record Period.

If US\$ had strengthened/weakened by 5% against RMB with all other variables held constant, the post-tax income would have been approximately RMB4,176,000, RMB2,430,000, RMB1,640,000 and RMB1,708,000 higher/lower for the years ended 31 December 2019, 2020 and 2021 and for the six months ended 30 June 2022, respectively, as a result of net foreign exchange gains/losses on translation of net monetary assets denominated in US\$.

If EUR had strengthened/weakened by 5% against RMB with all other variables held constant, the post-tax income would have been approximately RMB567,000, RMB677,000, RMB834,000 and RMB852,000 lower/higher for the years ended 31 December 2019, 2020 and 2021 and for the six months ended 30 June 2022, respectively, as a result of net foreign exchange losses/gains on translation of net monetary liabilities denominated in EUR.

If HK\$ had strengthened/weakened by 5% against RMB with all other variables held constant, the post-tax income would have been approximately RMB329,000 and RMB470,000 higher/lower for the years ended 31 December 2019 and 2020, respectively, as a result of net foreign exchange gains/losses on translation of net monetary assets denominated in HK\$.

If HK\$ had strengthened/weakened by 5% against RMB with all other variables held constant, the post-tax income would have been approximately RMB2,842,000, and RMB3,173,000 lower/higher for the year ended 31 December 2021 and for the six months ended 30 June 2022, as a result of net foreign exchange losses/gains on translation of net monetary liabilities denominated in HK\$.

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(ii) Price risk

The Group’s exposure to equity price risk arises from its investments in wealth management products classified as financial assets at fair value through profit or loss. As at 31 December 2020, if the market bid prices of the investments had been 10% higher/lower, with all other variables held constants, the Group’s post-tax income for the year would increase/decrease by approximately RMB100,000, respectively. A 10% change is used when reporting the price risk internally to the management. The Group does not expose to price risk as at 31 December 2019, 31 December 2021 and 30 June 2022.

Management constantly reviews the portfolio of investments and maintains the Group’s exposures to price risk within an acceptable level.

(iii) Cash flow and fair value interest rate risk

The income and operating cash flows of the Group and the Company are both substantially independent of changes in market interest rates. Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates. Financial instruments at variable rates expose the Group to cash flow interest rate risk. Financial instruments at fixed rate expose the Group to fair value interest rate risk. Both the Group and the Company have no significant interest-bearing assets or liabilities, except for deposits placed with banks and a financial liability at fair value through profit or loss, which was carried at fixed interest rate.

As at 31 December 2019, 2020 and 2021 and 30 June 2022, if interest rates on all interest-bearing short-term bank deposits and cash and cash equivalents had been 50 basis points higher/lower with all other balances held constant, profit for the year and equity of the Group would have been RMB726,000, RMB819,000, RMB942,000 and RMB942,000 higher/lower respectively, due to higher/lower interest income earned on the bank deposits.

(b) Credit risk

Credit risk arises from short-term bank deposits (Note 22), cash and cash equivalents (Note 22), contractual cash flows of debt instruments carried at amortised cost (Notes 18, 19, 20 and 31) and financial assets measured at fair value through profit or loss (Note 21).

The carrying amounts of short-term bank deposits, cash and cash equivalents, contractual cash flows of debt instruments carried at amortised cost and financial assets measured at fair value through profit or loss represent the Group’s maximum exposure to credit risk in relation to financial assets.

(i) Risk management

Credit risk is managed on a group basis. To manage this risk, deposit with banks and financial assets at fair value through profit or loss are mainly placed with reputable financial institutions.

For trade receivables, management make periodic collective assessments as well as individual assessment on the recoverability of the receivables based on the historical settlement records and past experience. Trade receivables at the end of each reporting period were due from the third-party Platforms and Publishers in cooperation with the Group. If the strategic relationship with the third-party Platforms and Publishers are terminated or scaled-back; or if the third party Platforms and Publishers alter the co-operative arrangements; or if they experience financial difficulties in paying the Group, the Group’s corresponding trade receivables might be adversely affected in terms of recoverability.

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To manage this risk, the Group maintains frequent communications with the third party Platforms and Publishers to ensure the effective credit control. In view of the history of cooperation with the third-party Platforms and Publishers and the sound collection history of receivables due from them, the directors of the Company believe that the credit risk inherent in the Group’s outstanding trade receivables balances due from the third-party Platforms and Publishers is low. As at 31 December 2019, 2020 and 2021 and 30 June 2022, management consider contractual cash flows of debt instruments carried at amortised cost as low credit risk as counterparties have a strong capacity to meet its contractual cash flow obligations in the near term.

Management considers the credit risks on amounts due from non-controlling interests, amounts due from shareholders and amounts due from related parties are minimal after considering the financial condition, past default history and repayment pattern of these entities. Management has performed assessment over the recoverability of the balances and management does not expect any losses from non-performance by these companies.

(ii) *Impairment of financial assets*

The Group has below financial assets that are subject to the expected credit loss model:

- trade receivables, and
- other financial assets at amortised cost.

While short-term bank deposits and cash and cash equivalents are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial. They are mainly placed with reputable financial institutions. There has been no recent history of default in relation to these financial institutions. The expected credit loss rate is close to zero.

Trade receivables

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. The Group measures the expected credit losses on a combination of both individual and collective basis.

Measurement of expected credit loss on individual basis

Receivables relating to third party Platforms and Publishers with known financial difficulties or significant doubt on collection of receivables are assessed individually for provision for impairment allowance. As at 31 December 2019, 2020 and 2021 and 30 June 2022, the balance of loss allowance in respect of these individually assessed receivables was RMB1,356,000, RMB3,944,000, RMB3,652,000 and RMB5,469,000 respectively.

The following table presents the balances of gross carrying amount and the loss allowance in respect of the individually assessed receivables as at 31 December 2019, 2020 and 2021 and 30 June 2022:

	As at 31 December			As at 30 June
	2019	2020	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000
Gross carrying amount	1,356	3,944	3,652	5,469
Loss allowance	<u>(1,356)</u>	<u>(3,944)</u>	<u>(3,652)</u>	<u>(5,469)</u>
Net carrying amount	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

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Measurement of expected credit loss on collective basis

Expected credit losses are also estimated by grouping the remaining receivables based on shared credit risk characteristics and collectively assessed for likelihood of recovery, taking into account the nature of the customer and its ageing category, and applying the expected credit loss rates to the respective gross carrying amounts of the receivables.

The expected credit loss rates are determined based on historical credit losses and are adjusted to reflect current and forward-looking information such as macroeconomic factors affecting the ability of the customers to settle the receivables. As at 31 December 2019, 2020 and 2021 and 30 June 2022, the balance of loss allowance in respect of these collectively assessed trade receivables balances was RMB209,000, RMB45,000, RMB177,000 and RMB132,000 based on expected loss rates up to 1.7%, 1.3%, 1.3% and 1.2% applied on different groupings, respectively.

Impairment losses on receivables are presented as “(net impairment losses)/reversal of impairment loss on financial assets” in the consolidated statements of comprehensive income. When a receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are credited against the same line item.

Other financial assets carried at amortised cost

For other financial assets carried at amortised cost, including deposits and other receivables, amounts due from non-controlling interests, amounts due from shareholders, amounts due from related parties, short-term bank deposits and cash and cash equivalents, the expected credit loss is based on the 12-month expected credit loss. It is the portion of lifetime expected credit loss that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime expected credit loss. Management has closely monitored the credit qualities and the collectability of the other financial assets at amortised cost and considers that the expected credit loss rate is close to zero as at 31 December 2019, 2020 and 2021 and 30 June 2022.

(c) Liquidity risk

The Group aims to maintain sufficient cash and cash equivalents. Due to the dynamic nature of the underlying businesses, the Group’s finance department maintains flexibility in funding by maintaining adequate cash and cash equivalents.

The table below analyses the Group’s non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the end of each reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

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The Group

	Less than 1 year <i>RMB'000</i>	Between 1 and 2 years <i>RMB'000</i>	Between 2 and 5 years <i>RMB'000</i>	Total <i>RMB'000</i>
At 31 December 2019				
Trade payables	43,874	9,859	—	53,733
Other payables and accruals (excluding advance from the Publishers, payroll and welfare payables, other tax payables and others)	5,184	—	—	5,184
Lease liabilities	<u>1,812</u>	<u>609</u>	<u>—</u>	<u>2,421</u>
	<u>50,870</u>	<u>10,468</u>	<u>—</u>	<u>61,338</u>
At 31 December 2020				
Trade payables	41,333	—	—	41,333
Other payables and accruals (excluding advance from the Publishers, payroll and welfare payables, other tax payables and others)	3,235	—	—	3,235
Lease liabilities	<u>2,202</u>	<u>1,344</u>	<u>177</u>	<u>3,723</u>
	<u>46,770</u>	<u>1,344</u>	<u>177</u>	<u>48,291</u>
At 31 December 2021				
Trade payables	30,617	—	—	30,617
Other payables and accruals (excluding advance from the Publishers, payroll and welfare payables, other tax payables and others)	15,645	—	—	15,645
Lease liabilities	<u>5,066</u>	<u>5,433</u>	<u>2,692</u>	<u>13,191</u>
	<u>51,328</u>	<u>5,433</u>	<u>2,692</u>	<u>59,453</u>
At 30 June 2022				
Trade payables	31,982	—	—	31,982
Other payables and accruals (excluding advance from the Publishers, payroll and welfare payables, other tax payables and others)	13,321	—	—	13,321
Lease liabilities	<u>7,294</u>	<u>7,234</u>	<u>996</u>	<u>15,524</u>
	<u>52,597</u>	<u>7,234</u>	<u>996</u>	<u>60,827</u>

Details of the description of convertible bonds are presented in Note 21(b).

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The Company

	Less than 1 year <i>RMB'000</i>	Between 1 and 2 years <i>RMB'000</i>	Between 2 and 5 years <i>RMB'000</i>	Total <i>RMB'000</i>
At 31 December 2019				
Amounts due to subsidiaries	11,557	—	—	11,557
Other payables and accruals	<u>1,110</u>	<u>—</u>	<u>—</u>	<u>1,110</u>
	<u>12,667</u>	<u>—</u>	<u>—</u>	<u>12,667</u>
At 31 December 2020				
Amounts due to subsidiaries	15,188	—	—	15,188
Other payables and accruals	<u>2,222</u>	<u>—</u>	<u>—</u>	<u>2,222</u>
	<u>17,410</u>	<u>—</u>	<u>—</u>	<u>17,410</u>
At 31 December 2021				
Amounts due to subsidiaries	4,360	—	—	4,360
Other payables and accruals	<u>4,350</u>	<u>—</u>	<u>—</u>	<u>4,350</u>
	<u>8,710</u>	<u>—</u>	<u>—</u>	<u>8,710</u>
At 30 June 2022				
Amounts due to subsidiaries	5,343	—	—	5,343
Other payables and accruals	<u>5,218</u>	<u>—</u>	<u>—</u>	<u>5,218</u>
	<u>10,561</u>	<u>—</u>	<u>—</u>	<u>10,561</u>

Details of the description of convertible bonds are presented in Note 21(b).

3.2 Capital management

The Group’s objectives when managing capital are to safeguard the Group’s ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares. In the opinion of the directors of the Company, the Group’s capital risk is low.

3.3 Fair value estimation

(a) Fair value hierarchy

The table below analyses the Group’s and the Company’s financial instruments carried at fair value as at 31 December 2019, 2020 and 2021 and 30 June 2022 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).

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- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group’s and the Company’s financial assets and liability that are measured at fair value as at 31 December 2019, 2020 and 2021 and 30 June 2022:

The Group

	As at 31 December			As at
	2019	2020	2021	30 June
	RMB’000	RMB’000	RMB’000	RMB’000
Assets				
Financial assets at fair value through profit or loss (Level 2)				
— Investments in wealth management products (Note 21(a))	—	999	—	—
	<u>—</u>	<u>999</u>	<u>—</u>	<u>—</u>

The Group and the Company

Liability

Financial liability at fair value through profit or loss (Level 3)				
— Convertible bonds (Note 21(b))	—	—	65,642	66,956
	<u>—</u>	<u>—</u>	<u>65,642</u>	<u>66,956</u>

There were no significant transfers between level 1, level 2 and level 3 fair value hierarchy classifications for the years ended 31 December 2019, 2020 and 2021 and the six months ended 30 June 2022.

The Group’s financial assets carried at fair value are measured at fair value using level 2 inputs as at 31 December 2020. The Group’s and the Company’s financial liability carried at fair value is measured at fair value using level 3 inputs as at 31 December 2021 and 30 June 2022.

(i) Financial instruments in level 1

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

(ii) Financial instruments in level 2

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. This is the case for investments in wealth management products.

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(iii) *Financial instruments in level 3*

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for convertible bonds.

(b) *Valuation techniques used to determine fair values*

Specific valuation techniques used to value level 2 and level 3 financial instruments include quoted prices from a financial institution and finite difference method respectively. There are no changes in valuation techniques during the Track Record Period.

The Group’s finance department includes a team that performs the valuations of financial instruments required for financial reporting purposes, including level 3 fair values. As part of the valuation process, this team reports directly to the chief financial officer and external valuers will be engaged, if necessary.

The fair value of the convertible bonds is determined by valuation techniques and based on assumptions on market conditions existing at the end of the reporting period. The valuation model requires the input of subjective assumptions, including the expected volatility and risk-free rate.

(c) *Fair value measurements using significant unobservable inputs (level 3)*

The following table presents the changes in level 3 financial instruments for the year ended 31 December 2021 and the six months ended 30 June 2022:

	Financial liability at fair value through profit or loss Convertible bonds (Note 21(b)) RMB'000
Balance at 1 January 2021	—
Addition	64,163
Fair value loss recognised in profit or loss	<u>1,479</u>
Balance at 31 December 2021 and 1 January 2022	<u>65,642</u>
Fair value gain on extension of convertible bonds recognised in profit or loss	(3,065)
Fair value loss recognised in profit or loss	<u>4,379</u>
Balance at 30 June 2022	<u><u>66,956</u></u>

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Quantitative information about fair value measurements using significant unobservable inputs (level 3):

The key unobservable assumptions used in the valuation of the convertible bonds as at 21 June 2021 (date of issuance), 31 December 2021, 31 May 2022 (date of extension) and 30 June 2022 are:

Valuation technique	Unobservable inputs	At 21 June 2021	At 31 December 2021	At 31 May 2022	At 30 June 2022
Finite difference	Risk-free rate	0.1%	0.2%	1.51%	1.47%
method	Expected volatility	55.2%	55.2%	53.4%	53.4%

As at 31 December 2021, the risk-free rate and expected volatility used to compute the fair value are 0.2% and 55.2%, respectively. If the risk-free rate and expected volatility shifted upward and downward by 2% and 5%, respectively, the impact on the profit or loss would be RMB325,000 lower/higher and RMB733,000 higher/lower, respectively. The higher the risk-free rate and lower the expected volatility, the lower the fair value.

As at 30 June 2022, the risk-free rate and expected volatility used to compute the fair value are 1.47% and 53.4%, respectively. If the risk-free rate and expected volatility shifted upward and downward by 2% and 5%, respectively, the impact on the profit or loss would be RMB309,000 lower/higher and RMB791,000 higher/lower, respectively. The higher the risk-free rate and lower the expected volatility, the lower the fair value.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Estimates of Player Relationship Period

As described in Note 2.22, the Group recognises the revenues rateably over the estimated average Player Relationship Period for the mobile games whereas the Group acts as principal. The determination of Player Relationship Period in each game is made based on the Group’s best estimate that takes into account all known and relevant information at the time of assessment. Such estimates are subject to re-evaluation on a periodical basis or there is any indication of change in the Player Relationship Period. Any adjustments arising from changes in the Player Relationship Period as a result of new information will be accounted for as a change in accounting estimate.

(b) Impairment provision for trade receivables

The impairment provisions for trade receivables are based on assumptions about the expected loss rates. The Group uses judgment in making these assumptions and selecting the inputs to the impairment calculation, based on the Group’s past history, existing market conditions as well as forward looking estimates at the end of each reporting period. For details of the key assumptions and inputs used, see Note 3.1(b) and Note 18. Changes in these assumptions and estimates could materially affect the result of the assessment and it may be necessary to make additional impairment charge to the consolidated statements of comprehensive income.

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(c) Fair values of the financial liability at fair value through profit or loss

The fair values of convertible bonds that are not traded in an active market (for example, over-the-counter derivatives) are determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. The Group has finite difference method for the financial liability at fair value through profit or loss that is not traded in active markets. Changes in assumption used could materially affect the fair values of these balances and as a result affect the Group’s financial condition and result of operation.

(d) Current and deferred income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax assets and liabilities in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised when management considers to be probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. The outcome of their actual utilisation may be different.

(e) Contractual Arrangement

The Group conducts its business through Wangchen Technology and its subsidiaries. Due to the regulatory restrictions on the foreign ownership of the [REDACTED] Business in the PRC, the Group does not have any equity interest in Wangchen Technology. The Directors assessed whether or not the Group has control over Wangchen Technology and its subsidiaries by assessing whether it has the rights to variable returns from its involvement with Wangchen Technology and its subsidiaries and has the ability to affect those returns through its power over Wangchen Technology and its subsidiaries. After assessment, the Directors concluded that the Group has control over Wangchen Technology and its subsidiaries as a result of the Contractual Arrangements and accordingly the financial position and the operating results of Wangchen Technology and its subsidiaries are included in the Group’s consolidated financial statements throughout the Track Record Period or since the respective dates of incorporation/establishment, whichever is the earlier period. Nevertheless, the Contractual Arrangements may not be as effective as direct legal ownership in providing the Group with direct control over Wangchen Technology and its subsidiaries and uncertainties presented by the PRC legal system could impede the Group’s beneficiary rights of the results, assets and liabilities of Wangchen Technology and its subsidiaries. The Directors, based on the advice of its legal counsel, consider that the Contractual Arrangements is unlikely to be deemed ineffective or invalid under the applicable PRC laws and regulations.

5 SEGMENT INFORMATION AND REVENUE

The Group’s business activities, for which discrete financial statements are available, are regularly reviewed and evaluated by the chief operating decision maker. As a result of this evaluation, the directors of the Company consider that the Group’s operations are operated and managed as a single segment, which is mobile sports game development, publishing and operation in the PRC, and no segment information is presented, accordingly.

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Revenue for the years ended 31 December 2019, 2020 and 2021 and the six months ended 30 June 2021 and 2022 are as follows:

	Year ended 31 December			Six months ended 30 June	
	2019	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Web-based and mobile online game revenue — Over time	378,630	404,745	459,851	180,974	294,775

The Group has a large number of game players, no revenue from any individual game player exceeded 10% or more of the Group’s revenue during the Track Record Period.

The Group is mainly domiciled in the PRC. Majority of revenue are derived in the PRC and no revenue are derived from any other individual country exceeded 10% or more of the Group’s revenue during the Track Record Period. The Group’s non-current assets are substantially located in the PRC as at 31 December 2019, 2020 and 2021 and 30 June 2022.

6 OTHER GAINS/(LOSSES), NET

	Year ended 31 December			Six months ended 30 June	
	2019	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Fair value gains on financial assets measured at fair value through profit or loss (<i>Note 21(a)</i>)	526	334	485	211	45
Fair value gain on extension of a financial liability measured at fair value through profit or loss (<i>Note 21(b)</i>)	—	—	—	—	3,065
Fair value loss on a financial liability measured at fair value through profit or loss (<i>Note 21(b)</i>)	—	—	(1,479)	—	(4,379)
Loss on disposal of property, plant and equipment	—	(7)	(748)	(26)	—
Exchange gain/(loss), net	143	(5,187)	145	151	2,245
Others	—	(43)	460	397	58
	669	(4,903)	(1,137)	733	1,034

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7 OTHER INCOME

	Year ended 31 December			Six months ended 30 June	
	2019 RMB'000	2020 RMB'000	2021 RMB'000	2021 RMB'000 (Unaudited)	2022 RMB'000
Government grants (<i>Note a</i>)	763	1,593	2,978	1,184	2,706
Others	199	338	341	170	888
	<u>962</u>	<u>1,931</u>	<u>3,319</u>	<u>1,354</u>	<u>3,594</u>

Note:

- (a) The amounts represent the subsidies for technological innovation received from the local government grants. There are no unfulfilled conditions or other contingencies attaching to these grants. The Group did not benefit directly from any other forms of government assistance.

8 EXPENSES BY NATURE

	Year ended 31 December			Six months ended 30 June	
	2019 RMB'000	2020 RMB'000	2021 RMB'000	2021 RMB'000 (Unaudited)	2022 RMB'000
Commission fee to Platforms	142,939	157,331	168,098	69,185	102,290
Advertising and marketing expenses	54,468	56,309	76,451	28,325	67,742
Employee benefit expense (<i>Note 9</i>)	54,548	62,496	82,490	35,477	49,158
Amortisation of intangible assets (<i>Note 16</i>)	18,504	19,253	19,416	9,730	9,012
Revenue share to Publishers	14,764	8,129	5,682	3,215	2,244
Royalty fees	25,690	28,611	28,481	9,541	21,143
Server usage expenses	3,757	4,638	7,434	2,830	5,121
Utilities and office expenses	1,268	1,784	2,234	885	1,333
Graphic design expenses and dubbing fee	1,319	849	2,383	596	1,791
Depreciation of right-of-use assets (<i>Note 15</i>)	2,465	2,733	4,056	1,211	3,123
Expenses relating to short-term leases	344	130	276	122	35
Depreciation of property, plant and equipment (<i>Note 14</i>)	1,303	1,641	1,893	834	1,106
[REDACTED] expenses	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Other professional service fees	1,483	676	1,803	1,104	1,313
Auditors' remunerations	84	101	97	58	135
Traveling and entertainment expenses	688	444	359	214	357
Tax and levies	1,712	2,061	2,383	916	1,708
Others	<u>1,590</u>	<u>1,638</u>	<u>1,815</u>	<u>574</u>	<u>1,020</u>
Total of cost of revenue, selling and marketing expenses, general and administrative expenses, and research and development expenses	<u>331,124</u>	<u>353,594</u>	<u>421,208</u>	<u>178,075</u>	<u>274,324</u>

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9 EMPLOYEE BENEFIT EXPENSE

	Year ended 31 December			Six months ended 30 June	
	2019	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Wages, salaries and bonuses	47,225	56,267	66,487	28,088	38,813
Social security costs, housing provident fund and other staff cost	7,323	6,229	16,003	7,389	10,345
	<u>54,548</u>	<u>62,496</u>	<u>82,490</u>	<u>35,477</u>	<u>49,158</u>

(a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for each of the years ended 31 December 2019, 2020 and 2021 and six months ended 30 June 2021 and 2022 include 2, 2, 2, 2 and 2 directors whose emoluments are reflected in analysis shown in Note (b) below. The emoluments payable to the remaining 3, 3, 3, 3 and 3 individuals for each of the years ended 31 December 2019, 2020 and 2021 and six months ended 30 June 2021 and 2022 are as follows:

	Year ended 31 December			Six months ended 30 June	
	2019	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Basic salaries	1,634	2,178	2,390	1,125	1,408
Bonus	531	529	240	—	—
Other social security costs and housing benefits	133	107	121	58	63
Total	<u>2,298</u>	<u>2,814</u>	<u>2,751</u>	<u>1,183</u>	<u>1,471</u>

The emoluments fell within the following bands:

	Number of individuals				
	Year ended 31 December			Six months ended 30 June	
	2019	2020	2021	2021	2022
				(Unaudited)	
Nil to HK\$500,000	—	—	—	3	—
HK\$500,001 to HK\$1,000,000	3	1	—	—	3
HK\$1,000,001 to HK\$1,500,000	—	2	3	—	—
	<u>3</u>	<u>3</u>	<u>3</u>	<u>3</u>	<u>3</u>

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(b) Benefits and interests of directors

The remuneration of each director for the year ended 31 December 2019 is set out as below:

Name	Salary RMB'000	Bonus RMB'000	Social security costs and housing benefits and other employee benefits RMB'000	Total RMB'000
<i>Executive directors</i>				
Jia Xiaodong	750	240	45	1,035
Li Xin	734	230	39	1,003
Huang Xiang	456	130	38	624
Total	1,940	600	122	2,662

The remuneration of each director for the year ended 31 December 2020 is set out as below:

Name	Salary RMB'000	Bonus RMB'000	Social security costs and housing benefits and other employee benefits RMB'000	Total RMB'000
<i>Executive directors</i>				
Jia Xiaodong	806	280	45	1,131
Li Xin	805	162	39	1,006
Huang Xiang	512	140	43	695
Total	2,123	582	127	2,832

The remuneration of each director for the year ended 31 December 2021 is set out as below:

Name	Salary RMB'000	Bonus RMB'000	Social security costs and housing benefits and other employee benefits RMB'000	Total RMB'000
<i>Executive directors</i>				
Jia Xiaodong	911	70	53	1,034
Li Xin	883	70	38	991
Huang Xiang	550	35	53	638
Total	2,344	175	144	2,663

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The remuneration of each director for the six months ended 30 June 2022 is set out as below:

Name	Salary RMB'000	Bonus RMB'000	Social security costs and housing benefits and other employee benefits RMB'000	Total RMB'000
<i>Executive directors</i>				
Jia Xiaodong	475	—	28	503
Li Xin	474	—	21	495
Huang Xiang	300	—	28	328
Total	1,249	—	77	1,326

The remuneration of each director for the six months ended 30 June 2021 is set out as below:

Name	Salary RMB'000 (Unaudited)	Bonus RMB'000 (Unaudited)	Social security costs and housing benefits and other employee benefits RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
<i>Executive directors</i>				
Jia Xiaodong	429	—	25	454
Li Xin	428	—	19	447
Huang Xiang	271	—	25	296
Total	1,128	—	69	1,197

Notes:

Mr. Jia Xiaodong, Mr. Huang Xiang and Mr. Li Xin were appointed as the Company’s executive directors on 23 June 2021.

Mr. Zhan Peixun, Mr. Leung Ming Shu and Ms. Chak Hoi Kee Clara were appointed as the Company’s independent non-executive directors upon [REDACTED] of the Company. During the Track Record Period, the independent non-executive directors have not yet been appointed and did not receive any directors’ remuneration in the capacity of non-executive directors or independent non-executive directors.

The remuneration shown above represents remuneration received from the Group by these directors in their capacity as employees to the companies comprising the Group.

No directors waived any emolument during the Track Record Period.

No director fee was paid to these directors in their capacity as directors of the Company or the companies comprising the Group.

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No emoluments were paid by the Company or the companies comprising the Group as an inducement to join the Company or the companies comprising the Group, or as compensation for loss of office during the Track Record Period.

(i) Director’s retirement benefits and termination benefits

None of the directors received or will receive any retirement benefits or termination benefits during the Track Record Period.

(ii) Consideration provided to third parties for making available director’s services

During the Track Record Period, the Company did not pay consideration to any third parties for making available directors’ services.

(iii) Information about loans, quasi-loans and other dealings in favor of directors, controlled bodies corporates by and controlled entities with such directors

Save as disclosed in Note 31 in this report, there is no loans, quasi-loans and other dealing arrangement in favor of directors, or controlled body corporates and connected entities of such directors during the Track Record Period.

(iv) Directors’ material interest in transactions, arrangements or contracts

During the Track Record Period, there is no significant transactions, arrangements and contracts in relation to the Group’s business in which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly subsisted at the end of the year or at any time during the Track Record Period.

10 FINANCE INCOME, NET

	Year ended 31 December			Six months ended 30 June	
	2019	2020	2021	2021	2022
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
				(Unaudited)	
Interest income					
— Bank deposits	1,221	1,013	1,478	562	1,067
— Interest accretion	498	—	—	—	—
	<u>1,719</u>	<u>1,013</u>	<u>1,478</u>	<u>562</u>	<u>1,067</u>
Interest expenses					
— Lease liabilities					
(Note 15(b))	(195)	(172)	(437)	(79)	(349)
— Interest accretion	—	(440)	(300)	(300)	(148)
	<u>(195)</u>	<u>(612)</u>	<u>(737)</u>	<u>(379)</u>	<u>(497)</u>
Finance income, net	<u>1,524</u>	<u>401</u>	<u>741</u>	<u>183</u>	<u>570</u>

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11 INCOME TAX EXPENSE/(CREDIT)

The income tax expense/(credit) of the Group for the years ended 31 December 2019, 2020 and 2021 and six months ended 30 June 2021 and 2022 is analysed as follows:

	Year ended 31 December			Six months ended 30 June	
	2019	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Current tax	4,593	3,370	820	—	4,470
Deferred income tax (<i>Note 26</i>)	259	696	1,516	(1,858)	(919)
	<u>4,852</u>	<u>4,066</u>	<u>2,336</u>	<u>(1,858)</u>	<u>3,551</u>

(a) Cayman Islands and BVI Income Tax

The Company is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands and accordingly, is exempted from Cayman Islands income tax. The Group entities established under the International Business Companies Acts of BVI are exempted from BVI income taxes.

(b) Hong Kong Income Tax

Hong Kong profits tax was calculated at rate of 16.5% on the assessable profits. No Hong Kong profits tax was provided for as there were sufficient available accumulated tax losses brought forward to offset against the estimated assessable profit for the years ended 31 December 2019, 2020 and 2021 and six months ended 30 June 2021 and 2022.

(c) PRC Corporate Income Tax (“CIT”)

The income tax provision of the Group in respect of its operations in the PRC was calculated at the tax rate of 25% on the assessable profits, except for stated below, for the Track Record Period, based on the existing legislation, interpretations and practices in respect thereof.

Wangchen Technology has obtained its qualification as a “High and New Technology Enterprise” (“HNTE”) in December 2019 and it is subject to a reduced preferential CIT rate of 15% for the years ended 31 December 2019 and 2020 according to the applicable tax preference applicable to the HNTE. Wangchen Technology is subject to CIT rate of 25% for the year ended 31 December 2021 and for the six months ended 30 June 2021 and 2022, and the enacted tax rate for the related deferred taxation was adjusted accordingly.

The WFOE has fulfilled the requirement of the “Preferential Corporate Income Tax Treatment for Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone” and it is subject to a reduced preferential CIT tax rate of 15% for the year ended 31 December 2021 and the six months ended 30 June 2021 and 2022.

(d) PRC Withholding Tax (“WHT”)

According to the applicable PRC tax regulations, dividends distributed by a company established in the PRC to a foreign investor with respect to profits derived after 1 January 2008 are generally subject to a 10% WHT. If a foreign investor incorporated in Hong Kong meets the conditions and requirements under the double taxation treaty arrangement entered into between the PRC and Hong Kong, the relevant withholding tax rate will be reduced from 10% to 5%.

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During the Track Record Period, the Group did not require its PRC subsidiaries to distribute their retained earnings to foreign investors. Accordingly, no deferred income tax liability on WHT was accrued as at the end of each reporting period.

The tax on the Group’s profit before tax differs from the theoretical amount that would arise using the PRC statutory income tax rate as follows:

	Year ended 31 December			Six months ended 30 June	
	2019	2020	2021	2021	2022
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
				(Unaudited)	
Profit before income tax	50,532	44,792	41,726	5,171	23,877
Tax calculated at PRC statutory tax rate of 25%	12,633	11,198	10,432	1,293	5,969
Tax effects of:					
Preferential income tax rates	(5,861)	(5,287)	(2,348)	87	(1,354)
Differential income tax rates applicable to subsidiaries	342	390	1,564	1,117	363
Super deduction for research and development expenses (Note a)	(3,905)	(4,889)	(8,264)	(4,417)	(4,010)
Income not taxable for tax purposes	(177)	(174)	(421)	(189)	(788)
Expenses not deductible for tax purpose (Note b)	1,133	2,062	3,962	2,974	1,403
Utilisation of previously unrecognised tax losses	(3)	—	—	—	—
Tax losses for which no deferred income tax was recognised	690	766	505	371	1,968
Impact of tax rate change on deferred taxation (Note 11(c))	—	—	(3,094)	(3,094)	—
	<u>4,852</u>	<u>4,066</u>	<u>2,336</u>	<u>(1,858)</u>	<u>3,551</u>

Notes:

- (a) According to the relevant laws and regulations promulgated by the PRC State Administration of Taxation made effective from 2018 onwards, enterprises engaging in research and development activities are entitled to claim up to 175% of their qualified research and development expenses 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 during the Track Record Period.
- (b) The amount mainly represented [REDACTED] expenses for the years ended 31 December 2019, 2020 and 2021 and the six months ended 30 June 2021 and 2022.

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12 EARNINGS PER SHARE

(a) Basis earnings per share

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the years ended 31 December 2019, 2020 and 2021 and six months ended 30 June 2021 and 2022.

In determining the weighted average number of shares in issue during the years ended 31 December 2019, 2020 and 2021 and six months ended 30 June 2021 and 2022, 1,000,000 shares were deemed to have been issued on 1 January 2018 as if the Company has been incorporated by then.

	Year ended 31 December			Six months ended 30 June	
	2019	2020	2021	2021	2022
				(Unaudited)	
Profit attributable to the owners of the Company (RMB'000)	<u>46,627</u>	<u>41,498</u>	<u>39,986</u>	<u>7,404</u>	<u>20,374</u>
Weighted average number of ordinary shares in issue (thousand shares)	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>
Basic earnings per share attributable to the owners of the Company (RMB per share)	<u>46.6</u>	<u>41.5</u>	<u>40.0</u>	<u>7.4</u>	<u>20.4</u>

(b) Diluted earnings per share

The calculation of the diluted earnings per share is based on the profit attributable to ordinary equity holders of the Company, adjusted to reflect the impact from any dilutive potential ordinary shares issued by the Group, as appropriate. The weighted average number of ordinary shares used in the calculation is the weighted average number of ordinary shares assumed to have been issued on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

On June 2021, the Company issued convertible bonds in the principal amount of HK\$77,112,000 (equivalent to RMB64,163,000) (Note 21(b)). The conversion feature of the convertible bonds is considered to fall within contingently issuable ordinary shares. The triggering events of conversion did not occur for the year ended 31 December 2021 and the six months ended 30 June 2021 and 2022, therefore the conversion feature of convertible bonds has no dilutive effect on earnings per share calculation.

The basic and diluted earnings per share as presented above has not taken into account the proposed capitalisation issue of shares pursuant to the shareholders’ resolution passed on 21 December 2022 because the proposed capitalisation issue (Note 34) has not become effective as of the date of this report.

13 DIVIDENDS

No dividend has been paid or declared by the Company since its incorporation.

Dividends disclosed during each of the years ended 31 December 2019, 2020 and 2021 and the six months ended 30 June 2021 and 2022 represented dividends declared and paid by Wangchen Technology to the shareholders based on their respective shareholdings. The rates for dividends and the number of shares ranking for dividends are not presented as such information is not considered meaningful for the purpose of this report.

	Year ended 31 December			Six months ended 30 June	
	2019	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Dividends	<u>—</u>	<u>20,000</u>	<u>80,000</u>	<u>80,000</u>	<u>—</u>

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14 PROPERTY, PLANT AND EQUIPMENT

	Computers and other equipment <i>RMB'000</i>	Furniture and fixtures <i>RMB'000</i>	Leasehold improvement <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2019				
Cost	3,310	389	1,072	4,771
Accumulated depreciation	(1,647)	(197)	(434)	(2,278)
Net book amount	1,663	192	638	2,493
Year ended 31 December 2019				
Opening net book amount	1,663	192	638	2,493
Additions	838	85	—	923
Depreciation (<i>Note 8</i>)	(911)	(57)	(335)	(1,303)
Closing net book amount	1,590	220	303	2,113
At 31 December 2019				
Cost	4,148	474	1,072	5,694
Accumulated depreciation	(2,558)	(254)	(769)	(3,581)
Net book amount	1,590	220	303	2,113
Year ended 31 December 2020				
Opening net book amount	1,590	220	303	2,113
Additions	731	304	1,030	2,065
Disposal	—	—	(7)	(7)
Depreciation (<i>Note 8</i>)	(1,036)	(151)	(454)	(1,641)
Closing net book amount	1,285	373	872	2,530
At 31 December 2020				
Cost	4,879	778	2,035	7,692
Accumulated depreciation	(3,594)	(405)	(1,163)	(5,162)
Net book amount	1,285	373	872	2,530
Year ended 31 December 2021				
Opening net book amount	1,285	373	872	2,530
Additions	1,703	463	2,452	4,618
Disposal	(138)	(125)	(485)	(748)
Depreciation (<i>Note 8</i>)	(1,013)	(199)	(681)	(1,893)
Closing net book amount	1,837	512	2,158	4,507
At 31 December 2021				
Cost	3,060	732	3,160	6,952
Accumulated depreciation	(1,223)	(220)	(1,002)	(2,445)
Net book amount	1,837	512	2,158	4,507

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	Computers and other equipment <i>RMB'000</i>	Furniture and fixtures <i>RMB'000</i>	Leasehold improvement <i>RMB'000</i>	Total <i>RMB'000</i>
Six months ended 30 June 2022				
Opening net book amount	1,837	512	2,158	4,507
Additions	1,828	310	366	2,504
Depreciation (<i>Note 8</i>)	<u>(542)</u>	<u>(122)</u>	<u>(442)</u>	<u>(1,106)</u>
Closing net book amount	<u>3,123</u>	<u>700</u>	<u>2,082</u>	<u>5,905</u>
At 30 June 2022				
Cost	4,855	923	2,949	8,727
Accumulated depreciation	<u>(1,732)</u>	<u>(223)</u>	<u>(867)</u>	<u>(2,822)</u>
Net book amount	<u>3,123</u>	<u>700</u>	<u>2,082</u>	<u>5,905</u>
(Unaudited)				
Six months ended 30 June 2021				
Opening net book amount	1,285	373	872	2,530
Additions	655	147	862	1,664
Disposal	(1)	(25)	—	(26)
Depreciation (<i>Note 8</i>)	<u>(501)</u>	<u>(82)</u>	<u>(251)</u>	<u>(834)</u>
Closing net book amount	<u>1,438</u>	<u>413</u>	<u>1,483</u>	<u>3,334</u>
At 30 June 2021				
Cost	4,447	740	2,897	8,084
Accumulated depreciation	<u>(3,009)</u>	<u>(327)</u>	<u>(1,414)</u>	<u>(4,750)</u>
Net book amount	<u>1,438</u>	<u>413</u>	<u>1,483</u>	<u>3,334</u>

Depreciation expenses have been charged to the consolidated statements of comprehensive income as follows:

	Year ended 31 December			Six months ended 30 June	
	2019	2020	2021	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(Unaudited)	
Cost of revenue	185	227	264	111	171
Selling and marketing expenses	149	200	257	111	156
General and administrative expenses	118	147	161	73	80
Research and development expenses	<u>851</u>	<u>1,067</u>	<u>1,211</u>	<u>539</u>	<u>699</u>
	<u>1,303</u>	<u>1,641</u>	<u>1,893</u>	<u>834</u>	<u>1,106</u>

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15 LEASES

(a) Amounts recognised in the consolidated statements of financial position

The consolidated statements of financial position show the following amounts relating to leases:

	As at 31 December			As at 30 June
	2019	2020	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000
Right-of-use assets				
Properties	<u>2,610</u>	<u>3,541</u>	<u>12,488</u>	<u>14,445</u>
Lease liabilities				
Current	1,737	2,082	4,558	6,736
Non-current	<u>600</u>	<u>1,484</u>	<u>7,830</u>	<u>7,986</u>
	<u>2,337</u>	<u>3,566</u>	<u>12,388</u>	<u>14,722</u>

Additions to the right-of-use assets during the years ended 31 December 2020 and 2021 and six months ended 30 June 2022 are RMB4,163,000, RMB14,105,000 and RMB5,080,000, respectively. There is no addition to right-of-use assets during the year ended 31 December 2019 and six months ended 30 June 2021.

(b) Amounts recognised in the consolidated statements of comprehensive income

The consolidated statements of comprehensive income show the following amounts related to leases:

	Year ended 31 December			Six months ended 30 June	
	2019	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Depreciation of right-of-use assets (Note)	<u>2,465</u>	<u>2,733</u>	<u>4,056</u>	<u>1,211</u>	<u>3,123</u>
Interest expense (included in finance income, net)	<u>195</u>	<u>172</u>	<u>437</u>	<u>79</u>	<u>349</u>

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Note:

Depreciation expenses of right-of-use assets have been charged to the consolidated statements of comprehensive income as follows:

	Year ended 31 December			Six months ended 30 June	
	2019 RMB'000	2020 RMB'000	2021 RMB'000	2021 RMB'000 (Unaudited)	2022 RMB'000
Cost of revenue	350	379	566	162	483
Selling and marketing expenses	281	333	550	162	442
General and administrative expenses	225	244	346	106	226
Research and development expenses	1,609	1,777	2,594	781	1,972
	<u>2,465</u>	<u>2,733</u>	<u>4,056</u>	<u>1,211</u>	<u>3,123</u>

The total cash outflow for leases in the years ended 31 December 2019, 2020 and 2021 and the six months ended 30 June 2021 and 2022 are RMB3,193,000, RMB2,694,000 and RMB4,864,000 and RMB1,441,000 and RMB3,130,000 respectively, including payment of principal elements and interest elements of lease liabilities and short-term leases.

(c) The Group’s leasing activities

The Group leases various properties as its offices. Rental contracts are typically made for fixed periods of 1 to 3 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants nor pledge as security for borrowing purposes.

The Group has applied an exemption to HKFRS 16 on certain short-term leases where the lease terms are within 1 year or less. For the leases where the exemption applied, the lease expenses of RMB344,000, RMB130,000 and RMB276,000, RMB122,000 and RMB35,000 are recognised as expenses relating to short-term leases in the general and administrative expenses as incurred for the years ended 31 December 2019, 2020 and 2021 and the six months ended 30 June 2021 and 2022, respectively.

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16 INTANGIBLE ASSETS

	Licenses <i>RMB'000</i>	Software <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2019			
Cost	49,483	214	49,697
Accumulated amortisation	<u>(33,126)</u>	<u>(15)</u>	<u>(33,141)</u>
Net book amount	<u>16,357</u>	<u>199</u>	<u>16,556</u>
Year ended 31 December 2019			
Opening net book amount	16,357	199	16,556
Additions	35,862	115	35,977
Amortisation (<i>Note 8</i>)	<u>(18,490)</u>	<u>(14)</u>	<u>(18,504)</u>
Closing net book amount	<u>33,729</u>	<u>300</u>	<u>34,029</u>
At 31 December 2019			
Cost	85,345	329	85,674
Accumulated amortisation	<u>(51,616)</u>	<u>(29)</u>	<u>(51,645)</u>
Net book amount	<u>33,729</u>	<u>300</u>	<u>34,029</u>
Year ended 31 December 2020			
Opening net book amount	33,729	300	34,029
Additions	11,383	71	11,454
Amortisation (<i>Note 8</i>)	<u>(19,167)</u>	<u>(86)</u>	<u>(19,253)</u>
Closing net book amount	<u>25,945</u>	<u>285</u>	<u>26,230</u>
At 31 December 2020			
Cost	96,728	400	97,128
Accumulated amortisation	<u>(70,783)</u>	<u>(115)</u>	<u>(70,898)</u>
Net book amount	<u>25,945</u>	<u>285</u>	<u>26,230</u>
Year ended 31 December 2021			
Opening net book amount	25,945	285	26,230
Additions	8,040	164	8,204
Amortisation (<i>Note 8</i>)	<u>(19,258)</u>	<u>(158)</u>	<u>(19,416)</u>
Closing net book amount	<u>14,727</u>	<u>291</u>	<u>15,018</u>
At 31 December 2021			
Cost	104,768	564	105,332
Accumulated amortisation	<u>(90,041)</u>	<u>(273)</u>	<u>(90,314)</u>
Net book amount	<u>14,727</u>	<u>291</u>	<u>15,018</u>

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	Licenses <i>RMB'000</i>	Software <i>RMB'000</i>	Total <i>RMB'000</i>
Six months ended 30 June 2022			
Opening net book amount	14,727	291	15,018
Additions	3,920	872	4,792
Amortisation (<i>Note 8</i>)	<u>(8,880)</u>	<u>(132)</u>	<u>(9,012)</u>
Closing net book amount	<u><u>9,767</u></u>	<u><u>1,031</u></u>	<u><u>10,798</u></u>
At 30 June 2022			
Cost	108,688	1,436	110,124
Accumulated amortisation	<u>(98,921)</u>	<u>(405)</u>	<u>(99,326)</u>
Net book amount	<u><u>9,767</u></u>	<u><u>1,031</u></u>	<u><u>10,798</u></u>
(Unaudited)			
Six months ended 30 June 2021			
Opening net book amount	25,945	285	26,230
Additions	—	61	61
Amortisation (<i>Note 8</i>)	<u>(9,652)</u>	<u>(78)</u>	<u>(9,730)</u>
Closing net book amount	<u><u>16,293</u></u>	<u><u>268</u></u>	<u><u>16,561</u></u>
At 30 June 2021			
Cost	96,728	461	97,189
Accumulated amortisation	<u>(80,435)</u>	<u>(193)</u>	<u>(80,628)</u>
Net book amount	<u><u>16,293</u></u>	<u><u>268</u></u>	<u><u>16,561</u></u>

Amortisation expenses have been charged to the consolidated statements of comprehensive income as follows:

	Year ended 31 December			Six months ended 30 June	
	2019	2020	2021	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(Unaudited)	
Cost of revenue	15,176	19,100	19,258	9,652	8,880
General and administrative expenses	<u>3,328</u>	<u>153</u>	<u>158</u>	<u>78</u>	<u>132</u>
	<u><u>18,504</u></u>	<u><u>19,253</u></u>	<u><u>19,416</u></u>	<u><u>9,730</u></u>	<u><u>9,012</u></u>

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17 FINANCIAL INSTRUMENTS BY CATEGORY

The Group

	As at 31 December			As at
	2019	2020	2021	30 June
	RMB'000	RMB'000	RMB'000	2022
				RMB'000
Assets as per consolidated statements of financial position				
Financial assets at fair value through profit or loss:				
— Investments in wealth management products (<i>Note 21(a)</i>)	—	999	—	—
Financial assets measured at amortised costs:				
— Trade receivables (<i>Note 18</i>)	27,392	20,321	35,598	52,251
— Deposits and other receivables (excluding prepayment) (<i>Note 19</i>)	1,388	570	2,233	2,399
— Amounts due from non-controlling interests (<i>Note 20</i>)	1,865	1,865	1,715	675
— Amounts due from shareholders (<i>Note 31</i>)	120	48	—	—
— Amounts due from related parties (<i>Note 31</i>)	232	4,136	36	—
— Short-term deposits (<i>Note 22</i>)	90	85	83	—
— Cash and cash equivalents (<i>Note 22</i>)	145,032	163,723	188,410	188,493
	<u>176,119</u>	<u>191,747</u>	<u>228,075</u>	<u>243,818</u>
Liabilities as per consolidated statements of financial position				
Financial liability at fair value through profit or loss:				
— Convertible bonds (<i>Note 21(b)</i>)	—	—	65,642	66,956
Financial liabilities at amortised cost:				
— Trade payables (<i>Note 27</i>)	53,022	41,031	30,617	31,982
— Other payables and accruals (excluding advance from the Publishers, payroll and welfare payables and other tax payables) (<i>Note 28</i>)	5,184	3,235	15,645	13,321
— Lease liabilities (<i>Note 15</i>)	2,337	3,566	12,388	14,722
	<u>60,543</u>	<u>47,832</u>	<u>124,292</u>	<u>126,981</u>

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The Company

	As at 31 December			As at
	2019	2020	2021	30 June
	RMB'000	RMB'000	RMB'000	2022
				RMB'000
Assets as per statements of financial position				
Financial assets measured at amortised costs:				
— Amount due from a subsidiary (<i>Note 31</i>)	—	—	35,956	31,083
— Cash and cash equivalents (<i>Note 22</i>)	—	—	11	93
	<u>—</u>	<u>—</u>	<u>35,967</u>	<u>31,176</u>
Liabilities as per statements of financial position				
Financial liability at fair value through profit or loss:				
— Convertible bonds (<i>Note 21(b)</i>)	—	—	65,642	66,956
Financial liabilities at amortised cost:				
— Amounts due to subsidiaries (<i>Note 31</i>)	11,557	15,188	4,360	5,343
— Other payables and accruals (<i>Note 28</i>)	<u>1,110</u>	<u>2,222</u>	<u>4,350</u>	<u>5,218</u>
	<u>12,667</u>	<u>17,410</u>	<u>74,352</u>	<u>77,517</u>

18 TRADE RECEIVABLES

	As at 31 December			As at
	2019	2020	2021	30 June
	RMB'000	RMB'000	RMB'000	2022
				RMB'000
Trade receivables	28,957	24,310	39,427	57,852
Less: net impairment loss on trade receivables	<u>(1,565)</u>	<u>(3,989)</u>	<u>(3,829)</u>	<u>(5,601)</u>
Trade receivables, net	<u>27,392</u>	<u>20,321</u>	<u>35,598</u>	<u>52,251</u>

- (a) The credit terms of trade receivables granted by the Group are normally from 30 to 90 days. An aging analysis of trade receivables based on recognition date is as follows:

	As at 31 December			As at
	2019	2020	2021	30 June
	RMB'000	RMB'000	RMB'000	2022
				RMB'000
Up to 3 months	20,920	19,607	34,398	52,389
3 months to 1 year	4,139	762	1,305	1,811
Over 1 year	<u>3,898</u>	<u>3,941</u>	<u>3,724</u>	<u>3,652</u>
	<u>28,957</u>	<u>24,310</u>	<u>39,427</u>	<u>57,852</u>

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- (b) The Group applies the HKFRS 9 simplified approach to measure expected credit loss which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit loss, trade receivables relating to customers with known financial difficulties or significant doubt on collection of receivables are assessed individually for provision for impairment allowance, the remaining trade receivables have been grouped based on shared credit risk characteristics. Future cash flows for each group receivables are estimated on the basis of historical loss experience, adjusted to reflect the effects of current conditions as well as forward looking information.

The expected losses rate for the Platforms is up to 1.7%, 1.3% and 1.3%, 1.3% and 1.2% for the years ended 31 December 2019, 2020 and 2021 and the six months ended 30 June 2021 and 2022. Based on management’s assessment, the Group recorded impairment losses on trade receivables of RMB129,000 and RMB3,788,000 and RMB1,772,000 during the years ended 31 December 2019 and 2020 and the six months ended 30 June 2022, respectively and reversal of impairment loss on trade receivables of RMB160,000 during the year ended 31 December 2021 in the consolidated statements of comprehensive income.

Movements on the Group’s provision for impairment of trade receivables are as follows:

	As at 31 December			As at 30 June	
	2019	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
At beginning of the year/ period	1,436	1,565	3,989	3,989	3,829
Provision for/(reversal of) impairment	129	3,788	(160)	(2)	1,772
Written off	—	(1,364)	—	—	—
At end of the year/period	<u>1,565</u>	<u>3,989</u>	<u>3,829</u>	<u>3,987</u>	<u>5,601</u>

- (c) As at 31 December 2019, 2020 and 2021 and 30 June 2022, the Group’s trade receivables were denominated in the following currencies:

	As at 31 December			As at
	2019	2020	2021	30 June
	RMB'000	RMB'000	RMB'000	2022
				RMB'000
RMB	18,708	15,389	17,607	21,010
US\$	7,922	7,955	15,735	33,173
HK\$	<u>2,327</u>	<u>966</u>	<u>6,085</u>	<u>3,669</u>
	<u>28,957</u>	<u>24,310</u>	<u>39,427</u>	<u>57,852</u>

The provisions for impaired receivables have been included in “net impairment losses/reversal of impairment loss on financial assets” in the consolidated statements of comprehensive income.

- (d) As at 31 December 2019, 2020 and 2021 and 30 June 2022, the fair values of trade receivables approximated their carrying amounts. The maximum exposure to credit risk at each of the reporting dates is the carrying value of the net receivable balance. The Group does not hold any collateral as security.

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19 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

The Group

	As at 31 December			As at
	2019	2020	2021	30 June
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets				
Deposits	268	312	1,235	1,526
Prepayment for royalty fees (<i>Note a</i>)	—	3,241	—	6,588
Prepayment for renovation cost	—	—	—	513
Loans granted to employees	172	116	—	362
	<u>440</u>	<u>3,669</u>	<u>1,235</u>	<u>8,989</u>
Current assets				
Prepayment for royalty fees (<i>Note a</i>)	275	275	363	315
Prepayment for advertisement and marketing expenses	908	1,966	5,666	4,045
Prepayment for [REDACTED] expenses	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Other prepayments	1,000	1,071	1,481	2,086
Loans granted to employees	470	36	466	36
Other receivables	478	106	532	475
	<u>8,221</u>	<u>8,535</u>	<u>15,942</u>	<u>18,073</u>

Note:

- (a) Prepayment for royalty fees represents upfront license fees paid to licensors before the terms commenced as the Group will be entitled to the non-exclusive rights to use the intellectual properties in specified geographic areas for certain period of time.

The maximum exposure to credit risk as at 31 December 2019, 2020 and 2021 and 30 June 2022 was the carrying value of each class of receivable mentioned above. The Group did not hold any collateral as security. The carrying amounts of other financial assets at amortised cost approximate to their fair values and are mainly denominated in RMB.

During the Track Record Period, the expected loss rate for deposits and other receivables is close to zero.

The Company

The balance mainly represents prepaid [REDACTED] expenses as at 31 December 2019, 2020 and 2021 and 30 June 2022.

20 AMOUNTS DUE FROM NON-CONTROLLING INTERESTS

The amounts are non-interest bearing, unsecured and repayable on demand. The maximum exposure to credit risk as at 31 December 2019, 2020 and 2021 and 30 June 2022 was the carrying value of amounts due from non-controlling interests. The carrying amounts of the balance approximate to their fair values and are denominated in RMB. These balances are non-trade in nature. The amounts due from non-controlling interests will be settled prior to the [REDACTED].

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21 FINANCIAL ASSETS/LIABILITY AT FAIR VALUE THROUGH PROFIT OR LOSS

(a) Financial assets at fair value through profit or loss

The Group

The Group’s financial assets at fair value through profit or loss mainly represent investments in wealth management products. These financial assets are mandatorily measured at fair value through profit or loss and with following details.

	As at 31 December			As at
	2019	2020	2021	30 June
	RMB’000	RMB’000	RMB’000	RMB’000
At the beginning of the year/period	9,800	—	999	—
Additions	55,500	104,709	111,500	19,800
Disposals	(65,826)	(104,044)	(112,984)	(19,845)
Fair value changes recognised in profit or loss (Note 6)	526	334	485	45
At the end of year/period	—	999	—	—

The investment in Yingnuo Ruier (Note 1.1) is accounted for as a financial asset at fair value through profit or loss. As Yingnuo Ruier has no business operation, the management considers the fair value of this investment is immaterial during the Track Record Period.

(b) Financial liability at fair value through profit or loss

The Group and the Company

On June 16, 2021, the Company, Garena Ventures Private Limited (“**Garena Ventures**”), Mr. Jia Xiaodong, Mr. Huang Xiang, the WFOE, Wangchen Technology, Gala Technology (BVI), Gala Technology (HK) and Gala Sports HK entered into a subscription agreement (the “**Pre-[REDACTED] CB Subscription Agreement**”), pursuant to which Garena Ventures agreed to subscribe for convertible bonds (“**Pre-[REDACTED] Convertible Bonds**”) issued by the Company in the principal amount of HK\$77,112,000 (equivalent to RMB64,163,000) and a conversion price of HK\$[REDACTED] per share (“**Conversion Price**”) subject to adjustment for consolidation, sub-division, [REDACTED] and issuance of new shares at a price less than the Conversion Price (which does not represent any discount to the mid-point of the [REDACTED] range). The issuance of the Pre-[REDACTED] Convertible Bonds by the Company to Garena Ventures was completed on 21 June 2021. The Pre-[REDACTED] Convertible Bonds are automatically convertible into ordinary shares of the Company immediately at a conversion price upon completion of the [REDACTED] and the [REDACTED] (the “**Qualified [REDACTED]**”), with a maturity date of 6 June 2022 (the “**Maturity Date**”). Assuming full conversion of the Pre-[REDACTED] Convertible Bonds immediately before the [REDACTED], Garena Ventures will be issued [REDACTED] shares, representing approximately [REDACTED] of the issued share capital of the Company immediately upon [REDACTED]. The Pre-[REDACTED] Convertible Bonds shall bear a simple interest computed at a rate of 5% per annum (on the basis of a 365-day year and the actual number of days elapsed), commencing on the issuance date of the Pre-[REDACTED] Convertible Bonds and until the full payment of the principal amount and payable at maturity or redemption of the Pre-[REDACTED] Convertible Bonds. They are not interest bearing if the conversion takes place before the Maturity Date.

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The Pre-[REDACTED] Convertible Bonds is redeemable at the option of Garena Venture if it is expected that the Company will not be [REDACTED] on the Stock Exchange or other reputable stock exchange in the United States or the PRC or such other stock exchange approved by Garena Ventures (“Qualified [REDACTED]”) on or before the Maturity Date, or that the final [REDACTED] per share of a Qualified [REDACTED] is lower than the then effective Conversion Price, Garena Ventures may, at its sole discretion, elect (i) to require the Company to redeem the Pre-[REDACTED] Convertible Bonds on the Maturity Date in the event that the aforesaid [REDACTED] is not consummated on or before the Maturity Date, or that the final [REDACTED] per share of such [REDACTED] is lower than the then effective conversion price; or (ii) to require the Company to convert the Pre-[REDACTED] Convertible Bonds into such number of a new series of preferred shares of the Company with the most senior ranking.

If a Qualified [REDACTED] occurs with a final [REDACTED] per share being lower than the then effective Conversion Price, subject to sole discretion of Garena Ventures, Garena Ventures may, by delivering a notice to the Company to elect to convert all or part of the principal amount of the Pre-[REDACTED] Convertible Bonds outstanding into fully-paid Shares to be issued by the Company on or immediately prior to the [REDACTED] at the then effective Conversion Price, subject to conditions as prescribed the Pre-[REDACTED] CB Subscription Agreement.

On 31 May 2022, the Company and Garena Ventures agreed to extend the Maturity Date of the Pre-[REDACTED] Convertible Bonds from 6 June 2022 to 6 June 2023, with other terms and conditions remain unchanged. Fair value gain of RMB3,065,000 was then recognised in the profit or loss.

The convertible bonds are recognised as financial liability at fair value through profit or loss, and measured with following details.

	As at 31 December 2021 RMB'000	As at 30 June 2022 RMB'000
At the beginning of the year/period	—	65,642
Addition	64,163	—
Fair value gain on extension of convertible bonds recognised in profit or loss	—	(3,065)
Fair value loss recognised in profit or loss	1,479	4,379
At the end of year/period	<u>65,642</u>	<u>66,956</u>

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22 CASH AND BANK BALANCES

(a) Cash and cash equivalents

The Group

	As at 31 December			As at
	2019	2020	2021	30 June
	RMB'000	RMB'000	RMB'000	2022
				RMB'000
Cash at bank and on hand	<u>145,032</u>	<u>163,723</u>	<u>188,410</u>	<u>188,493</u>

The Company

	As at 31 December			As at
	2019	2020	2021	30 June
	RMB'000	RMB'000	RMB'000	2022
				RMB'000
Cash at bank and on hand	<u>—</u>	<u>—</u>	<u>11</u>	<u>93</u>

(b) Short-term bank deposits

	As at 31 December			As at
	2019	2020	2021	30 June
	RMB'000	RMB'000	RMB'000	2022
				RMB'000
Short-term bank deposits	<u>90</u>	<u>85</u>	<u>83</u>	<u>—</u>

As at 31 December 2019, 2020 and 2021, the short-term bank deposits were placed to secure corporate credit card facilities of HK\$100,000.

As at 30 June 2022, the Group did not have any short-term bank deposits.

As at 31 December 2019, 2020 and 2021, the short-term bank deposits represented bank deposits of the Group with original maturities over three months but less than one year which are denominated in HK\$. The effective interest rate on short-term bank deposits as at 31 December 2019, 2020 and 2021 were 0.40%, 0.25%, 0.15% per annum, respectively.

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- (c) As at 31 December 2019, 2020 and 2021 and 30 June 2022, the Group’s cash and bank balances were denominated in the following currencies:

	As at 31 December			As at
	2019	2020	2021	30 June
	RMB'000	RMB'000	RMB'000	2022
				RMB'000
RMB	25,848	87,996	152,758	167,083
US\$	114,946	67,398	33,026	18,351
HK\$	4,324	8,410	2,709	3,059
Others	4	4	—	—
	<u>145,122</u>	<u>163,808</u>	<u>188,493</u>	<u>188,493</u>

Funds of the Group amounts to RMB25,840,000, RMB38,033,000, RMB29,761,000 and RMB28,655,000 as at December 2019, 2020 and 2021 and 30 June 2022, respectively, are kept in the bank accounts with banks in the PRC where the remittance of funds is subject to foreign exchange control.

23 SHARE CAPITAL AND COMBINED CAPITAL

(a) Share capital

	Number of shares	Share capital RMB
Issued:		
Ordinary shares of HK\$0.01 each		
As at 1 January 2019, 31 December 2019, 1 January 2020	50,000	424
Repurchase and cancellation of ordinary shares	<u>(10,000)</u>	<u>(106)</u>
As at 31 December 2020, 1 January 2021	40,000	318
Issuance of ordinary shares	<u>960,000</u>	<u>7,833</u>
As at 31 December 2021, 1 January 2022 and 30 June 2022	<u>1,000,000</u>	<u>8,151</u>

The Company was incorporated with limited liability in the Cayman Islands on 12 June 2018 with an authorised share capital of 38,000,000 shares of HK\$0.01 each.

During the year ended 31 December 2021, as a part of Reorganisation, the Company issued 960,000 shares at HK\$0.01 each to the offshore investment vehicles of the beneficial owners of Wangchen Technology at a consideration of RMB7,833.

(b) Combined Capital

The combined share capital and reserves during the years ended 31 December 2019 and 2020 represent the combined share capital and reserves of the companies comprising the Group after elimination of inter-company transactions and balances. On 14 May 2021, the balance of combined share capital of RMB11,778,000 and capital reserve of RMB44,734,000 were reclassified to other reserve upon the completion of the Reorganisation (Note 1.2).

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24 OTHER RESERVES

The Group

	Capital reserve RMB'000	Statutory reserve RMB'000	Other reserve RMB'000	Total RMB'000
At 1 January 2019	44,734	3,799	—	48,533
Appropriation to statutory reserves (Note a)	—	6,404	—	6,404
At 31 December 2019	<u>44,734</u>	<u>10,203</u>	<u>—</u>	<u>54,937</u>
At 1 January 2020	44,734	10,203	—	54,937
Appropriation to statutory reserves (Note a)	—	7,202	—	7,202
At 31 December 2020	<u>44,734</u>	<u>17,405</u>	<u>—</u>	<u>62,139</u>
At 1 January 2021	44,734	17,405	—	62,139
Appropriation to statutory reserves (Note a)	—	5,914	—	5,914
Reclassification of combined capital and capital reserve to other reserve pursuant to the Reorganisation (Note 23)	(44,734)	—	56,512	11,778
Acquisition of non-controlling interest in a subsidiary (Note b)	—	—	(276)	(276)
At 31 December 2021	<u>—</u>	<u>23,319</u>	<u>56,236</u>	<u>79,555</u>
At 1 January 2022	—	23,319	56,236	79,555
Acquisition of non-controlling interests in a subsidiary (Note b)	—	—	(2,103)	(2,103)
At 30 June 2022	<u>—</u>	<u>23,319</u>	<u>54,133</u>	<u>77,452</u>
(Unaudited)				
At 1 January 2021	44,734	17,405	—	62,139
Reclassification of combined capital and capital reserve to other reserve pursuant to the Reorganisation (Note 23)	(44,734)	—	56,512	11,778
Acquisition of non-controlling interests in a subsidiary (Note b)	—	—	(276)	(276)
At 30 June 2021	<u>—</u>	<u>17,405</u>	<u>56,236</u>	<u>73,641</u>

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Notes:

(a) Statutory reserve

In accordance with the Companies Laws of the PRC and the stipulated provisions of the articles of association of subsidiaries with limited liabilities in the PRC, appropriation of net profits (after offsetting accumulated losses from prior years) should be made by these companies to their respective Statutory Surplus Reserve Funds and the Discretionary Reserve Funds before distributions are made to the owners. The percentage of appropriation to Statutory Surplus Reserve Fund is 10%. The amount to be transferred to the Discretionary Reserve Fund is determined by the equity owners of these companies. When the balance of the Statutory Surplus Reserve Fund reaches 50% of the registered capital, such transfer needs not to be made. Both the Statutory Surplus Reserve Fund and Discretionary Reserves Fund can be capitalised as capital of an enterprise, provided that the remaining Statutory Surplus Reserve Fund shall not be less than 25% of the registered paid in capital.

In addition, in accordance with the Law of the PRC on Enterprises with Foreign Investments and the stipulated provisions of the articles of association of wholly owned foreign subsidiaries in the PRC, appropriation from net profits (after offsetting accumulated losses brought forward from prior years) should be made by these companies to their respective Reserve Fund. The percentage of net profit to be appropriated to the Reserve Fund is not less than 10% of the net profit. When the balance of the Reserve Fund reaches 50% of the registered capital, such transfer needs not be made. With approvals obtained from respective boards of directors of these companies, the Reserve Fund can be used to offset accumulated deficit or to increase capital.

(b) Acquisition of non-controlling interest in a subsidiary

On 9 June 2021, a non-controlling interest transferred 3% equity interest in Chuangzhen Shijie to WFOE, other reserve of RMB276,000 is recognised in the consolidated statements of changes in equity as a result of this transaction.

On 6 January 2022, a non-controlling interest transferred 21% equity interest in Chuangzhen Shijie to WFOE, other reserve of RMB2,103,000 is recognised in the consolidated statements of changes in equity as a result of this transaction.

The Company

	Other reserve <i>RMB'000</i>
As at 1 January 2019, 31 December 2019, 1 January 2020, 31 December 2020 and 1 January 2021	—
Contribution pursuant to the Reorganisation	<u>112,798</u>
As at 31 December 2021, 1 January 2022 and 30 June 2022	<u><u>112,798</u></u>

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25 CONTRACT COSTS AND CONTRACT LIABILITIES

	As at 31 December			As at
	2019	2020	2021	30 June
	RMB'000	RMB'000	RMB'000	2022
				RMB'000
Contract costs				
Cost charged by the Platforms and Publishers	8,723	11,632	13,108	14,870
Contract liabilities				
Unamortised revenue	(20,541)	(28,934)	(35,853)	(42,823)
	<u>(11,818)</u>	<u>(17,302)</u>	<u>(22,745)</u>	<u>(27,953)</u>

(a) Significant changes in contract costs and liabilities

Contract costs are mainly related to unamortised commissions charged by the Platforms and unamortised revenue sharing to the Publishers.

Contract liabilities primarily consist of the unamortised revenue from sales of game tokens and virtual items for mobile games, where there is still an implied obligation to be provided by the Group over time.

Contract liabilities for the unamortised revenue increased due to the increase in sales of game tokens and virtual items for mobile games during the Track Record Period. The Group expects to deliver the services to satisfy the remaining performance obligation of these contract liabilities within one year or less.

(b) Revenue recognised in relation to contract liabilities

The following table shows the amount of revenue recognised in the consolidated statements of comprehensive income for the respective years relating to contract liabilities brought forward:

	Year ended 31 December			Six months ended 30 June	
	2019	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Revenue recognised that was included in the contract liabilities balance at the beginning of the year					
Game publishing	<u>22,210</u>	<u>20,541</u>	<u>28,934</u>	<u>28,934</u>	<u>35,853</u>

(c) Assets recognised from contract acquisition costs

In adopting HKFRS 15, the Group recognises contract costs in relation to commissions charged by the Platforms and the revenue shared to the Publishers, which meet contract acquisition cost and fulfilment cost criteria, respectively, when the Group views the game players as its customer and that is incremental cost of acquiring a customer contract. They are capitalised as contract acquisition cost and fulfilment costs and amortised over the Player Relationship Period, which is consistent with the pattern of recognition of the associated revenue. The Group had no impairment losses recognised on any contract costs.

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26 DEFERRED INCOME TAX

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	As at 31 December			As at
	2019	2020	2021	30 June
	RMB'000	RMB'000	RMB'000	2022
Deferred tax assets:				
— to be recovered after more than 12 months	5,551	4,146	2,106	2,264
— to be recovered within 12 months	1,672	2,763	5,199	6,510
	<u>7,223</u>	<u>6,909</u>	<u>7,305</u>	<u>8,774</u>
Deferred tax liabilities:				
— to be recovered after more than 12 months	422	289	557	1,536
— to be recovered within 12 months	934	1,449	3,093	2,664
	<u>1,356</u>	<u>1,738</u>	<u>3,650</u>	<u>4,200</u>

(a) Deferred tax assets, net

The analysis of deferred income tax assets, net are as follows:

	As at 31 December			As at
	2019	2020	2021	30 June
	RMB'000	RMB'000	RMB'000	2022
The balance comprises temporary differences attributable to:				
Contract liabilities	1,596	2,482	4,059	4,838
Lease liabilities	498	567	1,858	2,321
Over-claimed advertising expense	3,543	2,767	—	—
Others	<u>1,586</u>	<u>1,093</u>	<u>1,388</u>	<u>1,615</u>
Total deferred tax assets	7,223	6,909	7,305	8,774
Set-off deferred tax liabilities	<u>(1,356)</u>	<u>(1,738)</u>	<u>(3,650)</u>	<u>(4,200)</u>
Deferred tax assets, net	<u>5,867</u>	<u>5,171</u>	<u>3,655</u>	<u>4,574</u>

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The movements in the deferred income tax assets, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

	Contract liabilities RMB'000	Lease liabilities RMB'000	Over-claimed advertising expense RMB'000	Others RMB'000	Total RMB'000
At 1 January 2019	1,415	749	3,890	1,617	7,671
Recognised in profit or loss	<u>181</u>	<u>(251)</u>	<u>(347)</u>	<u>(31)</u>	<u>(448)</u>
At 31 December 2019	<u>1,596</u>	<u>498</u>	<u>3,543</u>	<u>1,586</u>	<u>7,223</u>
At 1 January 2020	1,596	498	3,543	1,586	7,223
Recognised in profit or loss	<u>886</u>	<u>69</u>	<u>(776)</u>	<u>(493)</u>	<u>(314)</u>
At 31 December 2020	<u>2,482</u>	<u>567</u>	<u>2,767</u>	<u>1,093</u>	<u>6,909</u>
At 1 January 2021	2,482	567	2,767	1,093	6,909
Recognised in profit or loss	<u>1,577</u>	<u>1,291</u>	<u>(2,767)</u>	<u>295</u>	<u>396</u>
At 31 December 2021	<u>4,059</u>	<u>1,858</u>	<u>—</u>	<u>1,388</u>	<u>7,305</u>
At 1 January 2022	4,059	1,858	—	1,388	7,305
Recognised in profit or loss	<u>779</u>	<u>463</u>	<u>—</u>	<u>227</u>	<u>1,469</u>
At 30 June 2022	<u>4,838</u>	<u>2,321</u>	<u>—</u>	<u>1,615</u>	<u>8,774</u>
(Unaudited)					
At 1 January 2021	2,482	567	2,767	1,093	6,909
Recognised in profit or loss	<u>1,335</u>	<u>(234)</u>	<u>(1,939)</u>	<u>3,297</u>	<u>2,459</u>
At 30 June 2021	<u>3,817</u>	<u>333</u>	<u>828</u>	<u>4,390</u>	<u>9,368</u>

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(b) Deferred tax liabilities, net

The analysis of deferred income tax liabilities, net are as follows:

	As at 31 December			As at
	2019	2020	2021	30 June
	RMB'000	RMB'000	RMB'000	2022
				RMB'000
The balance comprises temporary differences attributable to:				
Contract costs	866	1,188	1,807	1,958
Right-of-use assets	490	550	1,843	2,242
Total deferred tax liabilities	1,356	1,738	3,650	4,200
Set-off deferred tax assets	(1,356)	(1,738)	(3,650)	(4,200)
Deferred tax liabilities, net	—	—	—	—

The movements in the deferred income tax liabilities, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

	Contract costs	Right-of-use	Total
	RMB'000	assets	RMB'000
	RMB'000	RMB'000	RMB'000
At 1 January 2019	798	747	1,545
Recognised in profit or loss	68	(257)	(189)
At 31 December 2019	866	490	1,356
At 1 January 2020	866	490	1,356
Recognised in profit or loss	322	60	382
At 31 December 2020	1,188	550	1,738
At 1 January 2021	1,188	550	1,738
Recognised in profit or loss	619	1,293	1,912
At 31 December 2021	1,807	1,843	3,650
At 1 January 2022	1,807	1,843	3,650
Recognised in profit or loss	151	399	550
At 30 June 2022	1,958	2,242	4,200
(Unaudited)			
At 1 January 2021	1,188	550	1,738
Recognised in profit or loss	583	18	601
At 30 June 2021	1,771	568	2,339

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- (c) Deferred income tax assets are recognised for tax losses carry forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. At 31 December 2019, 2020 and 2021 and 30 June 2022, the Group has unrecognised tax losses to be carried forward against future taxable income amounted to RMB10,191,000, RMB13,256,000, RMB14,969,000 and RMB30,266,000, respectively. Tax losses amounting to RMB10,191,000, RMB13,256,000, RMB14,969,000 and RMB30,266,000 will expire from 2022 to 2026. The potential deferred income tax assets in respect of these tax losses which have not been recognised are calculated based on the effective income tax rates according to prevailing tax laws and regulations in which the Group operates.
- (d) According to the applicable PRC tax regulations, dividends distributed by a company established in the PRC to a foreign investor with respect to profits derived after 1 January 2008 are generally subject to a 10% WHT. If a foreign investor incorporated in Hong Kong meets the conditions and requirements under the double taxation treaty arrangement entered into between the PRC and Hong Kong, the relevant withholding tax rate will be reduced from 10% to 5%.

During the Track Record Period, the Group did not require its PRC subsidiaries to distribute their retained earnings to foreign investors. As at 31 December 2019, 2020 and 2021 and 30 June 2022, deferred income tax liabilities have not been provided for in the consolidated financial statements in respect of the withholding tax that would be payable on unremitted earnings of the PRC subsidiaries of the Company amounting to approximately RMB8,516,000, RMB10,762,000, RMB5,945,000 and RMB8,883,000, respectively, as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

27 TRADE PAYABLES

	As at 31 December			As at
	2019	2020	2021	30 June
	RMB'000	RMB'000	RMB'000	2022
				RMB'000
Non-current				
— Third parties	9,715	—	—	—
Current				
— Third parties	43,307	41,031	30,617	31,982
	<u>53,022</u>	<u>41,031</u>	<u>30,617</u>	<u>31,982</u>

Trade payables primarily consist of the license fee and royalty fee payable to the licensors for the rights to use the intellectual properties of certain football and basketball players in its developed games in specified geographic areas for certain period of time.

The aging analysis of trade payables based on recognition date is as follows:

	As at 31 December			As at
	2019	2020	2021	30 June
	RMB'000	RMB'000	RMB'000	2022
				RMB'000
0–90 days	37,427	22,114	17,155	22,740
91–365 days	9,985	4,787	2,172	1,078
1–2 years	5,610	9,114	4,546	1,389
Over 2 years	—	5,016	6,744	6,775
	<u>53,022</u>	<u>41,031</u>	<u>30,617</u>	<u>31,982</u>

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As at 31 December 2019, 2020 and 2021 and 30 June 2022, the fair value of trade payables approximated their carrying amount.

28 OTHER PAYABLES AND ACCRUALS

The Group

	As at 31 December			As at
	2019	2020	2021	30 June
	RMB'000	RMB'000	RMB'000	RMB'000
Payroll and welfare payables	12,157	12,669	12,426	7,735
Other tax payables	8,611	11,197	11,065	13,772
Accrued expenses	5,184	3,235	15,645	13,321
Others	<u>806</u>	<u>917</u>	<u>802</u>	<u>829</u>
	26,758	28,018	39,938	35,657
Less: non-current portion				
Others	<u>(68)</u>	<u>(208)</u>	<u>(306)</u>	<u>(455)</u>
Current portion	<u>26,690</u>	<u>27,810</u>	<u>39,632</u>	<u>35,202</u>

As at 31 December 2019, 2020 and 2021 and 30 June 2022, the fair values of these balances approximated to their carrying amounts.

The Company

	As at 31 December			As at
	2019	2020	2021	30 June
	RMB'000	RMB'000	RMB'000	RMB'000
Accrued expenses	<u>1,110</u>	<u>2,222</u>	<u>4,350</u>	<u>5,218</u>

As at 31 December 2019, 2020 and 2021 and 30 June 2022, the fair values of these balances approximated to their carrying amounts.

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29 CASH FLOW INFORMATION

(a) Cash generated from operations

	Year ended 31 December			Six months ended 30 June	
	2019	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Profit before income tax	50,532	44,792	41,726	5,171	23,877
Adjustment for:					
Interest expense (<i>Note 10</i>)	195	612	737	379	497
Interest income (<i>Note 10</i>)	(1,719)	(1,013)	(1,478)	(562)	(1,067)
Loss on disposal of property, plant and equipment (<i>Note 6</i>)	—	7	748	26	—
Gain on lease termination (<i>Note 29(c)</i>)	—	(43)	(30)	—	—
Fair value gains on financial assets measured at fair value through profit or loss (<i>Note 6</i>)	(526)	(334)	(485)	(211)	(45)
Fair value loss on a financial liability measured at fair value through profit or loss (<i>Note 6</i>)	—	—	1,479	—	4,379
Fair value gain on extension of a financial liability measured at fair value through profit or loss (<i>Note 6</i>)	—	—	—	—	(3,065)
Depreciation of property, plant and equipment (<i>Note 14</i>)	1,303	1,641	1,893	834	1,106
Depreciation of right-of-use assets (<i>Note 15</i>)	2,465	2,733	4,056	1,211	3,123
Net impairment losses/(reversal of impairment loss) on financial assets	129	3,788	(160)	(2)	1,772
Amortisation of intangible assets (<i>Note 16</i>)	18,504	19,253	19,416	9,730	9,012
Exchange difference	(1,903)	6,712	3,065	1,385	(282)
Operating profit before working capital changes	68,980	78,148	70,967	17,961	39,307
Changes in working capital:					
— Trade receivables, prepayments and other receivables	12,165	4,207	(16,808)	(13,426)	(28,625)
— Trade and other payables	14,943	(3,901)	10,398	1,068	(940)
— Contract costs	421	(2,909)	(1,476)	835	(1,762)
— Contract liabilities	(1,669)	8,393	6,919	(1,264)	6,970
	<u>94,840</u>	<u>83,938</u>	<u>70,000</u>	<u>5,174</u>	<u>14,950</u>

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(b) Proceeds from disposal of property, plant and equipment

In the consolidated statements of cash flow, proceeds from disposal of property, plant and equipment comprise:

	Year ended 31 December			Six months ended	
	2019	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Net book amount	—	7	748	26	—
Loss on disposal of property, plant and equipment	—	(7)	(748)	(26)	—
Proceeds from disposal of property, plant and equipment	—	—	—	—	—

(c) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group’s liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group’s consolidated statements of cash flows as cash flows from financing activities.

	Lease liabilities RMB'000	Dividend payables RMB'000	Financial liability at fair value through profit or loss RMB'000	Total RMB'000
At 1 January 2019	4,991	8,000	—	12,991
Cash flows	(2,849)	(8,000)	—	(10,849)
Interest expense	195	—	—	195
At 31 December 2019	2,337	—	—	2,337
At 1 January 2020	2,337	—	—	2,337
Cash flows	(2,564)	(20,000)	—	(22,564)
Addition of leases	4,163	—	—	4,163
Lease termination (<i>Note</i>)	(542)	—	—	(542)
Interest expense	172	—	—	172
Dividend declared and approved	—	20,000	—	20,000
At 31 December 2020	3,566	—	—	3,566

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	Lease liabilities <i>RMB'000</i>	Dividend payables <i>RMB'000</i>	Financial liability at fair value through profit or loss <i>RMB'000</i>	Total <i>RMB'000</i>
At 31 December 2020 and 1 January 2021	3,566	—	—	3,566
Cash flows	(4,588)	(80,000)	64,163	(20,425)
Addition of leases	14,105	—	—	14,105
Lease termination (<i>Note</i>)	(1,132)	—	—	(1,132)
Interest expense	437	—	—	437
Dividend declared and approved	—	80,000	—	80,000
Fair value loss	—	—	1,479	1,479
At 31 December 2021	<u>12,388</u>	<u>—</u>	<u>65,642</u>	<u>78,030</u>
At 31 December 2021 and 1 January 2022	12,388	—	65,642	78,030
Cash flows	(3,095)	—	—	(3,095)
Addition of leases	5,080	—	—	5,080
Interest expense	349	—	—	349
Fair value loss	—	—	1,314	1,314
At 30 June 2022	<u>14,722</u>	<u>—</u>	<u>66,956</u>	<u>81,678</u>
(Unaudited)				
At 31 December 2020 and 1 January 2021	3,566	—	—	3,566
Cash flows	(1,319)	(80,000)	64,163	(17,156)
Interest expense	79	—	—	79
Dividend declared and approved	—	80,000	—	80,000
At 30 June 2021	<u>2,326</u>	<u>—</u>	<u>64,163</u>	<u>66,489</u>

Note:

During 31 December 2020, a gain of RMB43,000, being the difference between right-of-use assets of RMB499,000, and corresponding lease liabilities of RMB542,000, was recognised as a result of an early termination of a lease arrangement.

During 31 December 2021, a gain of RMB30,000, being the difference between right-of-use assets of RMB1,102,000 and corresponding lease liabilities of RMB1,132,000, was recognised as a result of an early termination of a lease arrangement.

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30 LEASE COMMITMENTS

The Group leases offices under non-cancellable operating lease agreements. The lease terms are between 1 and 3 years. During the Track Record Period, the Group has consistently applied HKFRS 16 and recognised right-of-use assets for these leases, except for short-term leases.

The future aggregate minimum lease payments under non-cancellable short-term operating leases are as follows:

	As at 31 December			As at
	2019	2020	2021	30 June
	RMB'000	RMB'000	RMB'000	RMB'000
No later than 1 year	<u>75</u>	<u>57</u>	<u>—</u>	<u>12</u>

31 RELATED PARTY TRANSACTIONS

The Group

The following significant transactions were carried out between the Group and its related parties during the Track Record Period. The related party transactions were at terms mutually agreed between the Group and the respective related parties.

(a) Names and relationships with related parties

The following companies are related parties of the Group that had balances and/or transactions with the Group during the Track Record Period.

Related parties	Relationship
Mr. Jia Xiaodong	A shareholder and director of the Company
Mr. Huang Xiang	A shareholder and director of the Company
Mr. Li Xin	A shareholder and director of the Company
Mr. Guo Yuheng	A senior management personnel of the Company
Mr. Zhao Xin	A senior management personnel of the Company
Mr. Zeng Ke	A senior management personnel of the Company
Mr. Chu Kai Chi	A senior management personnel of the Company

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(b) Loans to shareholders

(i) Mr. Jia Xiaodong

	Year ended 31 December			Six months ended 30 June	
	2019 RMB'000	2020 RMB'000	2021 RMB'000	2021 RMB'000 (Unaudited)	2022 RMB'000
Beginning of the year/ period	16	16	—	—	—
Loans repaid	—	(16)	—	—	—
End of the year/period	<u>16</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Maximum outstanding during the year/ period	<u>16</u>	<u>16</u>	<u>—</u>	<u>—</u>	<u>—</u>

(ii) Mr. Huang Xiang

	Year ended 31 December			Six months ended 30 June	
	2019 RMB'000	2020 RMB'000	2021 RMB'000	2021 RMB'000 (Unaudited)	2022 RMB'000
Beginning of the year/ period	30	30	—	—	—
Loan advanced	1,000	—	—	—	—
Loans repaid	(1,000)	(30)	—	—	—
End of the year/period	<u>30</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Maximum outstanding during the year/ period	<u>1,030</u>	<u>30</u>	<u>—</u>	<u>—</u>	<u>—</u>

(iii) Mr. Li Xin

	Year ended 31 December			Six months ended 30 June	
	2019 RMB'000	2020 RMB'000	2021 RMB'000	2021 RMB'000 (Unaudited)	2022 RMB'000
Beginning of the year/ period	123	74	48	48	—
Loans advanced	15	—	—	—	—
Loans repaid	(64)	(26)	(48)	(48)	—
End of the year/period	<u>74</u>	<u>48</u>	<u>—</u>	<u>—</u>	<u>—</u>
Maximum outstanding during the year/ period	<u>138</u>	<u>74</u>	<u>48</u>	<u>48</u>	<u>—</u>

Note:

The loans to shareholders are non-trade in nature.

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(c) Loans to key management

(i) Mr. Zhao Xin

	Year ended 31 December			Six months ended 30 June	
	2019 RMB'000	2020 RMB'000	2021 RMB'000	2021 RMB'000 (Unaudited)	2022 RMB'000
Beginning of the year/ period	4	4	4	4	—
Loans repaid	—	—	(4)	(4)	—
End of the year/period	<u>4</u>	<u>4</u>	<u>—</u>	<u>—</u>	<u>—</u>
Maximum outstanding during the year/ period	<u>4</u>	<u>4</u>	<u>4</u>	<u>4</u>	<u>—</u>

(ii) Mr. Guo Yuheng

	Year ended 31 December			Six months ended 30 June	
	2019 RMB'000	2020 RMB'000	2021 RMB'000	2021 RMB'000 (Unaudited)	2022 RMB'000
Beginning of the year/ period	—	228	4,132	4,132	36
Loans advanced	300	4,000	—	—	—
Loans repaid	(72)	(96)	(4,096)	(4,048)	(36)
End of the year/period	<u>228</u>	<u>4,132</u>	<u>36</u>	<u>84</u>	<u>—</u>
Maximum outstanding during the year/ period	<u>300</u>	<u>4,164</u>	<u>4,132</u>	<u>4,132</u>	<u>36</u>

Except for loans of RMB300,000 and RMB4,000,000 granted to Mr. Guo during the year ended 31 December 2019 and 2020 which are repayable within 3 years and within 1 year, respectively, all the loans to key management and shareholders are unsecured, interest free and repayable on demand. All these balances in relation to the related party transactions are non-trade in nature and were fully settled as at 30 June 2022.

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(d) Key management compensation

Key management includes executive directors and senior management. The compensation paid or payable to key management, including directors’ remuneration, is shown below:

	Year ended 31 December			Six months ended 30 June	
	2019 RMB’000	2020 RMB’000	2021 RMB’000	2021 RMB’000 (Unaudited)	2022 RMB’000
Wages, salaries and bonuses	4,765	6,066	5,838	2,536	3,012
Other social security costs and housing benefits and other employee benefits	246	217	303	145	160
Total	<u>5,011</u>	<u>6,283</u>	<u>6,141</u>	<u>2,681</u>	<u>3,172</u>

The Company

As at 31 December 2019, 2020 and 2021 and 30 June 2022, the amounts due to subsidiaries are non-trade in nature, unsecured, interest-free and repayable on demand. As at 31 December 2021 and 30 June 2022, the amount due from a subsidiary is non-trade in nature, unsecured, interest-free and repayable on demand.

32 CAPITAL COMMITMENTS

Significant capital expenditure contracted for at the end of the reporting period but not recognised as liabilities is as follows:

	As at 31 December			As at 30 June
	2019 RMB’000	2020 RMB’000	2021 RMB’000	2022 RMB’000
Intangible assets	<u>—</u>	<u>3,306</u>	<u>10,830</u>	<u>4,100</u>

33 CONTINGENCIES

The Group did not have any material contingent liabilities as at 31 December 2019, 2020 and 2021 and 30 June 2022.

34 SUBSEQUENT EVENTS

Subsequent to the Track Record Period, the Company made an adjustment to [REDACTED] of the [REDACTED] (the “**Adjustment**”). The cumulative impact of the [REDACTED] expenses recognised up to 30 June 2022 arising from the Adjustment will be recognised in the consolidated financial statements for the year ending 31 December 2022. As a result, the estimated impact on [REDACTED] expense to be recognised in the consolidated statements of comprehensive income and prepayments, deposits and other receivables in the consolidated statements of financial position would be a debit of HK\$2.8 million and a credit of the same amount, respectively, for the year ending 31 December 2022.

Pursuant to the written resolutions of shareholders of the Company (the “**Resolution**”) passed on 21 December 2022, the authorised share capital of the Company was increased from HK\$380,000 divided into 38,000,000 shares to HK\$100,000,000 divided into 10,000,000,000 shares by the creation of an additional 9,962,000,000 shares. In addition, pursuant to the Resolution, conditional on the share premium account of the Company being credited as a result of the issue of offer shares by the Company pursuant to the global offering, the Directors were authorised to capitalise an amount of HK\$1,125,800 standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par 112,580,000 shares, such shares to be allotted and issued to the shareholders as of the date of the passing of the resolution on a pro rata basis.

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APPENDIX I

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II SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 30 June 2022 and up to the date of this report. Save as disclosed in this report in Note 13, no dividends or distribution has been declared or made by the Company or any of the subsidiaries now comprising the Group in respect of any period subsequent to 30 June 2022.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

The information set forth in this appendix does not form part of the Accountant’s Report from our Company’s reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, as set forth in Appendix I to this document, and is included herein for illustrative purpose only. The unaudited pro forma financial information should be read in conjunction with the section headed “Financial Information” in this document and the Accountant’s Report set forth in Appendix I to this document.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following is an illustrative statement of unaudited pro forma adjusted consolidated net tangible assets which has been prepared in accordance with Rule 4.29 of the Listing Rules for the purpose of illustrating the effect of the [REDACTED] as if it had taken place on 30 June 2022 and based on the audited consolidated net tangible assets attributable to equity holders of the Company as at 30 June 2022 and adjusted as described below.

The unaudited pro forma statement of adjusted consolidated net tangible assets has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group had the [REDACTED] been completed as of 30 June 2022 or at any future dates.

	Audited consolidated net tangible assets attributable to equity holders of the Company as at 30 June 2022 ⁽¹⁾ RMB'000	Estimated [REDACTED] from the [REDACTED] ⁽²⁾ RMB'000	Unaudited pro forma adjusted consolidated net tangible assets attributable to equity holders of the Company as at 30 June 2022 RMB'000	Unaudited pro forma adjusted net tangible assets per Share ^{(3), (4)} RMB HK\$	
Based on an [REDACTED] of HK\$[REDACTED] per Share	116,665	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Based on an [REDACTED] of HK\$[REDACTED] per Share	116,665	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

Notes:

- (1) The audited consolidated net tangible assets attributable to equity holders of the Company as at 30 June 2022 is extracted from the Accountant’s Report as set out in Appendix I to this document, which is based on the audited consolidated net assets of the Group attributable to equity holders of the Company as at 30 June 2022 of approximately RMB127,463,000 with an adjustment for the intangible assets as at 30 June 2022 of approximately RMB10,798,000.
- (2) The estimated [REDACTED] to be received by the Company from the [REDACTED] are based on the indicative [REDACTED] of HK\$[REDACTED] per Share and HK\$[REDACTED] per Share, respectively, after deduction of the [REDACTED] fees and other related expenses (excluding approximately RMB[REDACTED] which have been recognised in the consolidated statements of comprehensive income prior to 30 June 2022) paid/payable by the Company, and takes no account of any Shares which may be issued under the Share Option Scheme or any Shares which may be issued or repurchased by the Company under the general mandate to issue Shares and general mandate to repurchase Shares as described in the section headed “Share Capital” in this document.
- (3) The Company issued convertible bonds (the “**Pre-[REDACTED] Convertible Bonds**”) to Garena Ventures Private Limited (“**Garena Ventures**”) in the principal amount of HK\$77,112,000 (equivalent to RMB64,163,000) and a conversion price of HK\$[REDACTED] per share (“**Conversion Price**”, which approximates to the mid-point of the indicative [REDACTED] range) on 21 June 2021. In the event the final [REDACTED] is less than the Conversion Price, automatic conversion will not be triggered and Garena Ventures may elect to redeem, convert all or part of the outstanding principal amount of the Pre-[REDACTED] Convertible Bonds at the Conversion Price prior to or after the [REDACTED] but in any event prior to the Maturity Date (being 6 June 2023).

The unaudited pro forma adjusted consolidated net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that [REDACTED] Shares were in issue assuming that the [REDACTED] and the [REDACTED] has been completed on 30 June 2022 without taking into account any Shares to be issued pursuant to the conversion or redemption of Pre-[REDACTED] Convertible Bonds issued on 21 June 2021 in the section headed “History, Reorganisation and Corporate Structure”, any Shares which may be issued under the Share Option Scheme or any Shares which may be issued or repurchased by the Company under the general mandate to issue Shares and general mandate to repurchase Shares as described in the section headed “Share Capital” in this document. Any Shares to be issued upon full or partial conversion or redemption of the Pre-[REDACTED] Convertible Bonds was not considered since the [REDACTED] has yet to be determined at the date of the Document.

Assuming full conversion of the Pre-[REDACTED] Convertible Bonds upon completion of the [REDACTED], the pro forma net tangible asset as at 30 June 2022 would have been RMB[REDACTED] and the pro forma net tangible asset per Share would have been RMB[REDACTED] (equivalent to HK\$[REDACTED]) based on the Offer Price of HK\$[REDACTED] per Share and RMB[REDACTED] (equivalent to HK\$[REDACTED]) based on the [REDACTED] of HK\$[REDACTED] per Share.

- (4) For the purpose of this unaudited pro forma adjusted net tangible assets, the amounts stated in RMB are converted into Hong Kong dollars at rate of RMB0.8552 to HK\$1. No representation is made that RMB amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.
- (5) No adjustment has been made to reflect any trading result or other transaction of the Group entered into subsequent to 30 June 2022.

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APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

[REDACTED]

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APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

[REDACTED]

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APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

[REDACTED]

APPENDIX III

SUMMARY OF OUR CONSTITUTION AND CAYMAN COMPANIES ACT

SUMMARY OF THE CONSTITUTION OF OUR COMPANY

1 Memorandum of Association

The Memorandum of Association of our Company was conditionally adopted on December 21, 2022 and states, *inter alia*, that the liability of the members of our Company is limited, that the objects for which our Company is established are unrestricted and our Company shall have full power and authority to carry out any object not prohibited by the Companies Act or any other law of the Cayman Islands.

The Memorandum of Association is on display on the websites of the Stock Exchange and our Company as specified in Appendix V in the section headed “Documents on display”.

2 Articles of Association

The Articles of Association of our Company were conditionally adopted on December 21, 2022 and include provisions to the following effect:

2.1 *Classes of Shares*

The share capital of our Company consists of ordinary shares. The capital of our Company at the date of adoption of the Articles is HK\$100,000,000 divided into 10,000,000,000 shares of HK\$0.01 each.

2.2 *Directors*

(a) Power to allot and issue Shares

Subject to the provisions of the Companies Act and the Memorandum and Articles of Association, the unissued shares in our Company (whether forming part of its original or any increased capital) shall be at the disposal of the Directors, who may offer, allot, grant options over or otherwise dispose of them to such persons, at such times and for such consideration, and upon such terms, as the Directors shall determine.

Subject to the provisions of the Articles of Association and to any direction that may be given by our Company in general meeting and without prejudice to any special rights conferred on the holders of any existing shares or attaching to any class of shares, any share may be issued with or have attached thereto such preferred, deferred, qualified or other special rights or restrictions, whether in regard to dividend, voting, return of capital or otherwise, and to such persons at such times and for such consideration as the Directors may determine. Subject to the Companies Act and to any special rights conferred on any shareholders or attaching to any class of shares, any share may, with the sanction of a special resolution, be issued on terms that it is, or at the option of our Company or the holder thereof, liable to be redeemed.

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(b) Power to dispose of the assets of our Company or any subsidiary

The management of the business of our Company shall be vested in the Directors who, in addition to the powers and authorities by the Articles of Association expressly conferred upon them, may exercise all such powers and do all such acts and things as may be exercised or done or approved by our Company and are not by the Articles of Association or the Companies Act expressly directed or required to be exercised or done by our Company in general meeting, but subject nevertheless to the provisions of the Companies Act and of the Articles of Association and to any regulation from time to time made by our Company in general meeting not being inconsistent with such provisions or the Articles of Association, provided that no regulation so made shall invalidate any prior act of the Directors which would have been valid if such regulation had not been made.

(c) Compensation or payment for loss of office

Payment to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must first be approved by our Company in general meeting.

(d) Loans to Directors

There are provisions in the Articles of Association prohibiting the making of loans to Directors or their respective close associates which are equivalent to the restrictions imposed by the Companies Ordinance.

(e) Financial assistance to purchase Shares

Subject to all applicable laws, our Company may give financial assistance to Directors and employees of our Company, its subsidiaries or any holding company or any subsidiary of such holding company in order that they may buy shares in our Company or any such subsidiary or holding company. Further, subject to all applicable laws, our Company may give financial assistance to a trustee for the acquisition of shares in our Company or shares in any such subsidiary or holding company to be held for the benefit of employees of our Company, its subsidiaries, any holding company of our Company or any subsidiary of any such holding company (including salaried Directors).

(f) Disclosure of interest in contracts with our Company or any of its subsidiaries

No Director or proposed Director shall be disqualified by his office from contracting with our Company either as vendor, purchaser or otherwise nor shall any such contract or any contract or arrangement entered into by or on behalf of our Company with any person, company or partnership of or in which any Director shall be a member or otherwise interested be capable on that account of being avoided, nor shall any Director so contracting or being any member or so interested be liable to account to our Company for any profit so realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship thereby established, provided that such Director shall, if his interest in such contract or arrangement is material, declare the nature of his interest at the earliest meeting of the board of Directors at which it is

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practicable for him to do so, either specifically or by way of a general notice stating that, by reason of the facts specified in the notice, he is to be regarded as interested in any contracts of a specified description which may be made by our Company.

A Director shall not be entitled to vote on (nor shall be counted in the quorum in relation to) any resolution of the Directors in respect of any contract or arrangement or any other proposal in which the Director or any of his close associates (or, if required by the Listing Rules, his other associates) has any material interest, and if he shall do so his vote shall not be counted (nor is he to be counted in the quorum for the resolution), but this prohibition shall not apply to any of the following matters, namely:

- (i) the giving to such Director or any of his close associates of any security or indemnity in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of our Company or any of its subsidiaries;
- (ii) the giving of any security or indemnity to a third party in respect of a debt or obligation of our Company or any of its subsidiaries for which the Director or any of his close associates has himself/themselves assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (iii) any proposal concerning an offer of shares, debentures or other securities of or by our Company or any other company which our Company may promote or be interested in for subscription or purchase where the Director or any of his close associates is/are or is/are to be interested as a participant in the [REDACTED] or sub-[REDACTED] of the offer;
- (iv) any proposal or arrangement concerning the benefit of employees of our Company or any of its subsidiaries including:
 - (A) the adoption, modification or operation of any employees’ share scheme or any share incentive scheme or share option scheme under which the Director or any of his close associates may benefit; or
 - (B) the adoption, modification or operation of a pension or provident fund or retirement, death or disability benefits scheme which relates both to Directors, their close associates and employees of our Company or any of its subsidiaries and does not provide in respect of any Director or any of his close associates, as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and
- (v) any contract or arrangement in which the Director or any of his close associates is/are interested in the same manner as other holders of shares or debentures or other securities of our Company by virtue only of his/their interest in shares or debentures or other securities of our Company.

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(g) Remuneration

The Directors shall be entitled to receive by way of remuneration for their services such sum as shall from time to time be determined by the Directors, or our Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided amongst the Directors in such proportions and in such manner as they may agree, or failing agreement, equally, except that in such event any Director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in our Company may be entitled by reason of such employment or office.

The Directors shall also be entitled to be paid all expenses, including travel expenses, reasonably incurred by them in or in connection with the performance of their duties as Directors including their expenses of travelling to and from board meetings, committee meetings or general meetings or otherwise incurred whilst engaged on the business of our Company or in the discharge of their duties as Directors.

The Directors may grant special remuneration to any Director who shall perform any special or extra services at the request of our Company. Such special remuneration may be made payable to such Director in addition to or in substitution for his ordinary remuneration as a Director, and may be made payable by way of salary, commission or participation in profits or otherwise as may be agreed.

The remuneration of an executive Director or a Director appointed to any other office in the management of our Company shall from time to time be fixed by the Directors and may be by way of salary, commission or participation in profits or otherwise or by all or any of those modes and with such other benefits (including share option and/or pension and/or gratuity and/or other benefits on retirement) and allowances as the Directors may from time to time decide. Such remuneration shall be in addition to such remuneration as the recipient may be entitled to receive as a Director.

(h) Retirement, appointment and removal

The Directors shall have power at any time and from time to time to appoint any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the first annual general meeting of our Company after his appointment and shall then be eligible for re-election at that meeting, but shall not be taken into account in determining the number of Directors and which Directors are to retire by rotation at such meeting.

Our Company may by ordinary resolution remove any Director (including a Managing Director or other executive Director) before the expiration of his term of office notwithstanding anything in the Articles of Association or in any agreement between our Company and such Director (but without prejudice to any claim for compensation or damages payable to him in respect of the termination of his appointment as Director or of any other appointment of office as a result of the termination of this appointment as

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Director). Our Company may also by ordinary resolution appoint another person in his place. Any Director so appointed shall hold office during such time only as the Director in whose place he is appointed would have held the same if he had not been removed.

Our Company may also by ordinary resolution elect any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. No person shall, unless recommended by the Directors, be eligible for election to the office of Director at any general meeting unless, during the period, which shall be at least seven days, commencing no earlier than the day after the despatch of the notice of the meeting appointed for such election and ending no later than seven days prior to the date of such meeting, there has been given to the Secretary of our Company notice in writing by a member of our Company (not being the person to be proposed) entitled to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also notice in writing signed by the person to be proposed of his willingness to be elected.

There is no shareholding qualification for Directors nor is there any specified age limit for Directors.

The office of a Director shall be vacated:

- (i) if he resigns his office by notice in writing to our Company at its registered office or its principal office in Hong Kong;
- (ii) if an order is made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the Directors resolve that his office be vacated;
- (iii) if, without leave, he is absent from meetings of the Directors (unless an alternate Director appointed by him attends) for 12 consecutive months, and the Directors resolve that his office be vacated;
- (iv) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (v) if he ceases to be or is prohibited from being a Director by law or by virtue of any provision in the Articles of Association;
- (vi) if he is removed from office by notice in writing served upon him signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of the Directors (including himself) for the time being then in office; or
- (vii) if he shall be removed from office by an ordinary resolution of the members of our Company under the Articles of Association.

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At every annual general meeting of our Company one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third, shall retire from office by rotation, provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat. Our Company at any annual general meeting at which any Directors retire may fill the vacated office by electing a like number of persons to be Directors.

(i) Borrowing powers

The Directors may from time to time at their discretion exercise all the powers of our Company to raise or borrow or to secure the payment of any sum or sums of money for the purposes of our Company and to mortgage or charge its undertaking, property and assets (present and future) and uncalled capital or any part thereof.

(j) Proceedings of the Board

The Directors may meet together for the despatch of business, adjourn and otherwise regulate their meetings and proceedings as they think fit in any part of the world. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairperson of the meeting shall have a second or casting vote.

2.3 Alteration to constitutional documents

No alteration or amendment to the Memorandum or Articles of Association may be made except by special resolution.

2.4 Variation of rights of existing shares or classes of shares

If at any time the share capital of our Company is divided into different classes of shares, all or any of the rights attached to any class of shares for the time being issued (unless otherwise provided for in the terms of issue of the shares of that class) may, subject to the provisions of the Companies Act, be varied or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class. To every such separate meeting all the provisions of the Articles of Association relating to general meetings shall *mutatis mutandis* apply, but so that the quorum for the purposes of any such separate meeting and of any adjournment thereof shall be a person or persons together holding (or representing by proxy or duly authorised representative) at the date of the relevant meeting not less than one-third in nominal value of the issued shares of that class.

The special rights conferred upon the holders of shares of any class shall not, unless otherwise expressly provided in the rights attaching to or the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

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2.5 Alteration of capital

Our Company may, from time to time, whether or not all the shares for the time being authorised shall have been issued and whether or not all the shares for the time being issued shall have been fully paid up, by ordinary resolution, increase its share capital by the creation of new shares, such new capital to be of such amount and to be divided into shares of such respective amounts as the resolution shall prescribe.

Our Company may from time to time by ordinary resolution:

- (a) consolidate and divide all or any of its share capital into shares of a larger amount than its existing shares. On any consolidation of fully paid shares and division into shares of larger amount, the Directors may settle any difficulty which may arise as they think expedient and in particular (but without prejudice to the generality of the foregoing) may as between the holders of shares to be consolidated determine which particular shares are to be consolidated into each consolidated share, and if it shall happen that any person shall become entitled to fractions of a consolidated share or shares, such fractions may be sold by some person appointed by the Directors for that purpose and the person so appointed may transfer the shares so sold to the purchaser thereof and the validity of such transfer shall not be questioned, and so that the net proceeds of such sale (after deduction of the expenses of such sale) may either be distributed among the persons who would otherwise be entitled to a fraction or fractions of a consolidated share or shares rateably in accordance with their rights and interests or may be paid to our Company for our Company's benefit;
- (b) cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled subject to the provisions of the Companies Act; and
- (c) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum of Association, subject nevertheless to the provisions of the Companies Act, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as our Company has power to attach to unissued or new shares.

Our Company may by special resolution reduce its share capital or any capital redemption reserve in any manner authorised and subject to any conditions prescribed by the Companies Act.

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2.6 Special resolution — majority required

A “special resolution” is defined in the Articles of Association to have the meaning ascribed thereto in the Companies Act, for which purpose, the requisite majority shall be not less than three-fourths of the votes of such members of our Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given and includes a special resolution approved in writing by all of the members of our Company entitled to vote at a general meeting of our Company in one or more instruments each signed by one or more of such members, and the effective date of the special resolution so adopted shall be the date on which the instrument or the last of such instruments (if more than one) is executed.

In contrast, an “ordinary resolution” is defined in the Articles of Association to mean a resolution passed by a simple majority of the votes of such members of our Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles of Association and includes an ordinary resolution approved in writing by all the members of our Company aforesaid.

2.7 Voting rights

Subject to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of shares, at any general meeting (a) every member present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have the right to speak, (b) on a show of hands, every member present in such manner shall have one vote, and (c) on a poll, every member present in such manner shall have one vote for each share registered in his name in the register of members of our Company.

Where any member is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

In the case of joint registered holders of any share, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present being the most or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the register in respect of the relevant joint holding.

A member of our Company in respect of whom an order has been made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs may vote by any person authorised in such circumstances to do so and such person may vote by proxy.

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Save as expressly provided in the Articles of Association or as otherwise determined by the Directors, no person other than a member of our Company duly registered and who shall have paid all sums for the time being due from him payable to our Company in respect of his shares shall be entitled to be present or to vote (save as proxy for another member of our Company), or to be reckoned in a quorum, either personally or by proxy at any general meeting.

At any general meeting a resolution put to the vote of the meeting shall be decided by way of a poll save that the chairperson of the meeting may allow a resolution which relates purely to a procedural or administrative matter as prescribed under the Listing Rules to be voted on by a show of hands.

If a recognised clearing house (or its nominee(s)) is a member of our Company it may authorise such person or persons as it thinks fit to act as its proxy(ies) or representative(s) at any general meeting of our Company or at any general meeting of any class of members of our Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be entitled to exercise the same rights and powers on behalf of the recognised clearing house (or its nominee(s)) which he represents as that recognised clearing house (or its nominee(s)) could exercise as if it were an individual member of our Company holding the number and class of shares specified in such authorisation, including, where a show of hands is allowed, the right to vote individually on a show of hands.

2.8 Annual general meetings and extraordinary general meetings

Our Company shall hold a general meeting as its annual general meeting in each financial year. The annual general meeting shall be specified as such in the notices calling it.

The board of Directors may, whenever it thinks fit, convene an extraordinary general meeting. General meetings shall also be convened on the written requisition of any one or more members holding together, as at the date of deposit of the requisition, shares representing not less than one-tenth of the voting rights, on a one vote per share basis, of our Company which carry the right of voting at general meetings of our Company. The written requisition shall be deposited at the principal office of our Company in Hong Kong or, in the event our Company ceases to have such a principal office, the registered office of our Company, specifying the objects of the meeting and the resolutions to be added to the meeting agenda, and signed by the requisitionist(s). If the Directors do not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting to be held within a further 21 days, the requisitionist(s) themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Directors provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Directors shall be reimbursed to them by our Company.

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2.9 Accounts and audit

The Directors shall cause to be kept such books of account as are necessary to give a true and fair view of the state of our Company’s affairs and to show and explain its transactions and otherwise in accordance with the Companies Act.

The Directors shall from time to time determine whether, and to what extent, and at what times and places and under what conditions or regulations, the accounts and books of our Company, or any of them, shall be open to inspection by members of our Company (other than officers of our Company) and no such member shall have any right of inspecting any accounts or books or documents of our Company except as conferred by the Companies Act or any other relevant law or regulation or as authorised by the Directors or by our Company in general meeting.

The Directors shall, commencing with the first annual general meeting, cause to be prepared and to be laid before the members of our Company at every annual general meeting a profit and loss account for the period, in the case of the first account, since the incorporation of our Company and, in any other case, since the preceding account, together with a balance sheet as at the date to which the profit and loss account is made up and a Director’s report with respect to the profit or loss of our Company for the period covered by the profit and loss account and the state of our Company’s affairs as at the end of such period, an auditor’s report on such accounts and such other reports and accounts as may be required by law. Copies of those documents to be laid before the members of our Company at an annual general meeting shall not less than 21 days before the date of the meeting, be sent in the manner in which notices may be served by our Company as provided in the Articles of Association to every member of our Company and every holder of debentures of our Company provided that our Company shall not be required to send copies of those documents to any person of whose address our Company is not aware or to more than one of the joint holders of any shares or debentures.

2.10 Auditors

Our Company shall at every annual general meeting by ordinary resolution appoint an auditor or auditors of our Company who shall hold office until the next annual general meeting. The removal of an auditor before the expiration of his period of office shall require the approval of an ordinary resolution of the members in general meeting. The remuneration of the auditors shall be fixed by our Company at the annual general meeting at which they are appointed by ordinary resolution, provided that in respect of any particular year our Company in general meeting may delegate the fixing of such remuneration to the Directors.

2.11 Notice of meetings and business to be conducted thereat

An annual general meeting shall be called by not less than 21 days’ notice in writing and any extraordinary general meeting shall be called by not less than 14 days’ notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and shall specify the time, place and agenda of the meeting, particulars of the resolutions and the general nature of the business to be considered at the meeting. The notice convening an annual general meeting shall specify the meeting as such, and the notice convening a meeting to pass a special resolution shall specify the intention to propose the resolution as a special resolution. Notice of every general meeting shall be given to the auditors

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and all members of our Company (other than those who, under the provisions of the Articles of Association or the terms of issue of the shares they hold, are not entitled to receive such notice from our Company).

Notwithstanding that a meeting of our Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:

- (a) in the case of a meeting called as an annual general meeting, by all members of our Company entitled to attend and vote thereat or their proxies; and
- (b) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95% in nominal value of the shares giving that right.

If, after the notice of a general meeting has been sent but before the meeting is held, or after the adjournment of a general meeting but before the adjourned meeting is held (whether or not notice of the adjourned meeting is required), the Directors, in their absolute discretion, consider that it is impractical or unreasonable for any reason to hold a general meeting on the date or at the time and place specified in the notice calling such meeting, it may change or postpone the meeting to another date, time and place.

The Directors also have the power to provide in every notice calling a general meeting that in the event of a gale warning or a black rainstorm warning is in force at any time on the day of the general meeting (unless such warning is cancelled at least a minimum period of time prior to the general meeting as the Directors may specify in the relevant notice), the meeting shall be postponed without further notice to be reconvened on a later date. Where a general meeting is so postponed, our Company shall endeavour to cause a notice of such postponement to be placed on our Company’s website and published on the Stock Exchange’s website as soon as practicable, but failure to place or publish such notice shall not affect the automatic postponement of such meeting.

Where a general meeting is postponed:

- (a) our Company shall endeavour to cause a notice of such postponement, which shall set out the reason for the postponement in accordance with the Listing Rules, to be placed on our Company’s website and published on the Stock Exchange’s website as soon as practicable, but failure to place or publish such notice shall not affect the automatic postponement of a general meeting due to a gale warning or black rainstorm warning being in force on the day of the general meeting;
- (b) the Directors shall fix the date, time and place for the reconvened meeting and at least seven clear days’ notice shall be given for the reconvened meeting; and such notice shall specify the date, time and place at which the postponed meeting will be reconvened and the date and time by which proxies shall be submitted in order to be valid at such reconvened meeting (provided that any proxy submitted for the original meeting shall continue to be valid for the reconvened meeting unless revoked or replaced by a new proxy); and

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- (c) only the business set out in the notice of the original meeting shall be transacted at the reconvened meeting, and notice given for the reconvened meeting does not need to specify the business to be transacted at the reconvened meeting, nor shall any accompanying documents be required to be recirculated. Where new business is to be transacted at such reconvened meeting, our Company shall give a fresh notice for such reconvened meeting in accordance with the Articles of Association.

2.12 Transfer of shares

Transfers of shares may be effected by an instrument of transfer in the usual common form or in such other form as the Directors may approve which is consistent with the standard form of transfer as prescribed by the Stock Exchange.

The instrument of transfer shall be executed by or on behalf of the transferor and, unless the Directors otherwise determine, the transferee, and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members of our Company in respect thereof. All instruments of transfer shall be retained by our Company.

The Directors may refuse to register any transfer of any share which is not fully paid up or on which our Company has a lien. The Directors may also decline to register any transfer of any shares unless:

- (a) the instrument of transfer is lodged with our Company accompanied by the certificate for the shares to which it relates (which shall upon the registration of the transfer be cancelled) and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer;
- (b) the instrument of transfer is in respect of only one class of shares;
- (c) the instrument of transfer is properly stamped (in circumstances where stamping is required);
- (d) in the case of a transfer to joint holders, the number of joint holders to whom the share is to be transferred does not exceed four;
- (e) the shares concerned are free of any lien in favour of our Company; and
- (f) a fee of such amount not exceeding the maximum amount as the Stock Exchange may from time to time determine to be payable (or such lesser sum as the Directors may from time to time require) is paid to our Company in respect thereof.

If the Directors refuse to register a transfer of any share they shall, within two months after the date on which the transfer was lodged with our Company, send to each of the transferor and the transferee notice of such refusal.

The registration of transfers may, on 10 business days’ notice (or on 6 business days’ notice in the case of a rights issue) being given by advertisement published on the Stock Exchange’s website, or, subject to the Listing Rules, by electronic communication in the manner in which notices may be served by our Company by electronic means as provided in the Articles of Association or by advertisement published in the newspapers, be suspended and the

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register of members of our Company closed at such times for such periods as the Directors may from time to time determine, provided that the registration of transfers shall not be suspended or the register closed for more than 30 days in any year (or such longer period as the members of our Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

2.13 Power of our Company to purchase its own shares

Our Company is empowered by the Companies Act and the Articles of Association to purchase its own shares subject to certain restrictions and the Directors may only exercise this power on behalf of our Company subject to the authority of its members in general meeting as to the manner in which they do so and to any applicable requirements imposed from time to time by the Stock Exchange and the Securities and Futures Commission of Hong Kong. Shares which have been repurchased will be treated as cancelled upon the repurchase.

2.14 Power of any subsidiary of our Company to own shares

There are no provisions in the Articles of Association relating to the ownership of shares by a subsidiary.

2.15 Dividends and other methods of distribution

Subject to the Companies Act and the Articles of Association, our Company in general meeting may declare dividends in any currency but no dividends shall exceed the amount recommended by the Directors. No dividend may be declared or paid other than out of profits and reserves of our Company lawfully available for distribution, including share premium.

Unless and to the extent that the rights attached to any shares or the terms of issue thereof otherwise provide, all dividends shall (as regards any shares not fully paid throughout the period in respect of which the dividend is paid) be apportioned and paid pro rata according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. For these purposes no amount paid up on a share in advance of calls shall be treated as paid up on the share.

The Directors may from time to time pay to the members of our Company such interim dividends as appear to the Directors to be justified by the profits of our Company. The Directors may also pay half-yearly or at other intervals to be selected by them any dividend which may be payable at a fixed rate if they are of the opinion that the profits available for distribution justify the payment.

The Directors may retain any dividends or other monies payable on or in respect of a share upon which our Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists. The Directors may also deduct from any dividend or other monies payable to any member of our Company all sums of money (if any) presently payable by him to our Company on account of calls, instalments or otherwise.

No dividend shall carry interest against our Company.

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Whenever the Directors or our Company in general meeting have resolved that a dividend be paid or declared on the share capital of our Company, the Directors may further resolve: (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up on the basis that the shares so allotted are to be of the same class as the class already held by the allottee, provided that the members of our Company entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or (b) that the members of our Company entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Directors may think fit on the basis that the shares so allotted are to be of the same class as the class already held by the allottee. Our Company may upon the recommendation of the Directors by ordinary resolution resolve in respect of any one particular dividend of our Company that notwithstanding the foregoing a dividend may be satisfied wholly in the form of an allotment of shares credited as fully paid without offering any right to members of our Company to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to a holder of shares may be paid by cheque or warrant sent through the post addressed to the registered address of the member of our Company entitled, or in the case of joint holders, to the registered address of the person whose name stands first in the register of members of our Company in respect of the joint holding or to such person and to such address as the holder or joint holders may in writing direct. Every cheque or warrant so sent shall be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register of members of our Company in respect of such shares, and shall be sent at his or their risk and the payment of any such cheque or warrant by the bank on which it is drawn shall operate as a good discharge to our Company in respect of the dividend and/or bonus represented thereby, notwithstanding that it may subsequently appear that the same has been stolen or that any endorsement thereon has been forged. Our Company may cease sending such cheques for dividend entitlements or dividend warrants by post if such cheques or warrants have been left uncashed on two consecutive occasions. However, our Company may exercise its power to cease sending cheques for dividend entitlements or dividend warrants after the first occasion on which such a cheque or warrant is returned undelivered. Any one of two or more joint holders may give effectual receipts for any dividends or other monies payable or property distributable in respect of the shares held by such joint holders.

Any dividend unclaimed for six years from the date of declaration of such dividend may be forfeited by the Directors and shall revert to our Company.

The Directors may, with the sanction of the members of our Company in general meeting, direct that any dividend be satisfied wholly or in part by the distribution of specific assets of any kind, and in particular of paid up shares, debentures or warrants to subscribe securities of any other company, and where any difficulty arises in regard to such distribution the Directors may settle it as they think expedient, and in particular may disregard fractional entitlements, round the same up or down or provide that the same shall accrue to the benefit of our Company, and may fix the value for distribution of such specific assets and may determine that cash payments shall be made to any members of our Company upon the footing of the value so fixed in order to adjust the rights of all parties, and may vest any such specific assets in trustees as may seem expedient to the Directors.

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2.16 Proxies

Any member of our Company entitled to attend and vote at a meeting of our Company shall be entitled to appoint another person who must be an individual as his proxy to attend and vote instead of him and a proxy so appointed shall have the same right as the member to speak at the meeting. A proxy need not be a member of our Company.

Instruments of proxy shall be in common form or in such other form as the Directors may from time to time approve provided that it shall enable a member to instruct his proxy to vote in favour of or against (or in default of instructions or in the event of conflicting instructions, to exercise his discretion in respect of) each resolution to be proposed at the meeting to which the form of proxy relates. The instrument of proxy shall be deemed to confer authority to vote on any amendment of a resolution put to the meeting for which it is given as the proxy thinks fit. The instrument of proxy shall, unless the contrary is stated therein, be valid as well for any adjournment of the meeting as for the meeting to which it relates provided that the meeting was originally held within 12 months from such date.

The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney authorised in writing or if the appointor is a corporation either under its seal or under the hand of an officer, attorney or other person authorised to sign the same.

The instrument appointing a proxy and (if required by the Directors) the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, shall be delivered at the registered office of our Company (or at such other place as may be specified in the notice convening the meeting or in any notice of any adjournment or, in either case, in any document sent therewith) not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote or, in the case of a poll taken subsequently to the date of a meeting or adjourned meeting, not less than 48 hours before the time appointed for the taking of the poll and in default the instrument of proxy shall not be treated as valid. No instrument appointing a proxy shall be valid after the expiration of 12 months from the date named in it as the date of its execution. Delivery of any instrument appointing a proxy shall not preclude a member of our Company from attending and voting in person at the meeting or poll concerned and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

2.17 Calls on shares and forfeiture of shares

The Directors may from time to time make calls upon the members of our Company in respect of any monies unpaid on their shares (whether on account of the nominal amount of the shares or by way of premium or otherwise) and not by the conditions of allotment thereof made payable at fixed times and each member of our Company shall (subject to our Company serving upon him at least 14 days’ notice specifying the time and place of payment and to whom such payment shall be made) pay to the person at the time and place so specified the amount called on his shares. A call may be revoked or postponed as the Directors may determine. A person upon whom a call is made shall remain liable on such call notwithstanding the subsequent transfer of the shares in respect of which the call was made.

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A call may be made payable either in one sum or by instalments and shall be deemed to have been made at the time when the resolution of the Directors authorising the call was passed. The joint holders of a share shall be jointly and severally liable to pay all calls and instalments due in respect of such share or other monies due in respect thereof.

If a sum called in respect of a share shall not be paid before or on the day appointed for payment thereof, the person from whom the sum is due shall pay interest on the sum from the day appointed for payment thereof to the time of actual payment at such rate, not exceeding 15% per annum, as the Directors may determine, but the Directors shall be at liberty to waive payment of such interest wholly or in part.

If any call or instalment of a call remains unpaid on any share after the day appointed for payment thereof, the Directors may at any time during such time as any part thereof remains unpaid serve a notice on the holder of such shares requiring payment of so much of the call or instalment as is unpaid together with any interest which may be accrued and which may still accrue up to the date of actual payment.

The notice shall name a further day (not being less than 14 days from the date of service of the notice) on or before which, and the place where, the payment required by the notice is to be made, and shall state that in the event of non-payment at or before the time and at the place appointed, the shares in respect of which such call was made or instalment is unpaid will be liable to be forfeited.

If the requirements of such notice are not complied with, any share in respect of which such notice has been given may at any time thereafter, before payment of all calls or instalments and interest due in respect thereof has been made, be forfeited by a resolution of the Directors to that effect. Such forfeiture shall include all dividends and bonuses declared in respect of the forfeited shares and not actually paid before the forfeiture. A forfeited share shall be deemed to be the property of our Company and may be re-allotted, sold or otherwise disposed of.

A person whose shares have been forfeited shall cease to be a member of our Company in respect of the forfeited shares but shall, notwithstanding the forfeiture, remain liable to pay to our Company all monies which at the date of forfeiture were payable by him to our Company in respect of the shares, together with (if the Directors shall in their discretion so require) interest thereon at such rate not exceeding 15% per annum as the Directors may prescribe from the date of forfeiture until payment, and the Directors may enforce payment thereof without being under any obligation to make any allowance for the value of the shares forfeited, at the date of forfeiture.

2.18 Inspection of register of members

The register of members of our Company shall be kept in such manner as to show at all times the members of our Company for the time being and the shares respectively held by them. The register may, on 10 business days' notice (or on 6 business days' notice in the case of a rights issue) being given by advertisement published on the Stock Exchange's website, or, subject to the Listing Rules, by electronic communication in the manner in which notices may be served by our Company by electronic means as provided in the Articles of Association or by advertisement published in the newspapers, be closed at such times and for such periods as the Directors may from time to time determine either generally or in respect of any class of shares,

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provided that the register shall not be closed for more than 30 days in any year (or such longer period as the members of our Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

Any register of members kept in Hong Kong shall during normal business hours (subject to such reasonable restrictions as the Directors may impose) be open to inspection by any member of our Company without charge and by any other person on payment of a fee of such amount not exceeding the maximum amount as may from time to time be permitted under the Listing Rules as the Directors may determine for each inspection.

2.19 Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment, choice or election of a chairperson which shall not be treated as part of the business of the meeting.

Two members of our Company present in person or by proxy shall be a quorum provided always that if our Company has only one member of record the quorum shall be that one member present in person or by proxy.

A corporation being a member of our Company shall be deemed for the purpose of the Articles of Association to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation or by power of attorney to act as its representative at the relevant general meeting of our Company or at any relevant general meeting of any class of members of our Company.

The quorum for a separate general meeting of the holders of a separate class of shares of our Company is described in paragraph 2.4 above.

2.20 Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles of Association concerning the rights of minority shareholders in relation to fraud or oppression.

2.21 Procedure on liquidation

Subject to the Companies Act, our Company may by special resolution resolve that our Company be wound up voluntarily.

If our Company shall be wound up, and the assets available for distribution amongst the members of our Company as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members of our Company in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively. If in a winding up the assets available for distribution amongst the members of our Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed amongst the members of our Company in proportion

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to the capital paid up at the commencement of the winding up on the shares held by them respectively. The foregoing is without prejudice to the rights of the holders of shares issued upon special terms and conditions.

If our Company shall be wound up, the liquidator may with the sanction of a special resolution of our Company and any other sanction required by the Companies Act, divide amongst the members of our Company in specie or kind the whole or any part of the assets of our Company (whether they shall consist of property of the same kind or not) and may, for such purpose, set such value as he deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members of our Company. The liquidator may, with the like sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the members of our Company as the liquidator, with the like sanction and subject to the Companies Act, shall think fit, but so that no member of our Company shall be compelled to accept any assets, shares or other securities in respect of which there is a liability.

2.22 Untraceable members

Our Company shall be entitled to sell any shares of a member of our Company or the shares to which a person is entitled by virtue of transmission on death or bankruptcy or operation of law if: (a) all cheques or warrants, not being less than three in number, for any sums payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (b) our Company has not during that time or before the expiry of the three month period referred to in (d) below received any indication of the whereabouts or existence of the member; (c) during the 12 year period, at least three dividends in respect of the shares in question have become payable and no dividend during that period has been claimed by the member; and (d) upon expiry of the 12 year period, our Company has caused an advertisement to be published in the newspapers or subject to the Listing Rules, by electronic communication in the manner in which notices may be served by our Company by electronic means as provided in the Articles of Association, giving notice of its intention to sell such shares and a period of three months has elapsed since such advertisement and the Stock Exchange has been notified of such intention. The [REDACTED] of any such sale shall belong to our Company and upon receipt by our Company of such [REDACTED] it shall become indebted to the former member for an amount equal to such [REDACTED].

SUMMARY OF CAYMAN ISLANDS COMPANY LAW AND TAXATION

1 Introduction

The Companies Act is derived, to a large extent, from the older Companies Acts of England, although there are significant differences between the Companies Act and the current Companies Act of England. Set out below is a summary of certain provisions of the Companies Act, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of corporate law and taxation which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

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2 Incorporation

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on June 12, 2018 under the Companies Act. As such, its operations must be conducted mainly outside the Cayman Islands. Our Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the size of its authorised share capital.

3 Share Capital

The Companies Act permits a company to issue ordinary shares, preference shares, redeemable shares or any combination thereof.

The Companies Act provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premia on those shares shall be transferred to an account called the “share premium account”. At the option of a company, these provisions may not apply to premia on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Act provides that the share premium account may be applied by a company, subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation:

- (a) paying distributions or dividends to members;
- (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares;
- (c) in the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Act);
- (d) writing-off the preliminary expenses of the company;
- (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and
- (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid the company will be able to pay its debts as they fall due in the ordinary course of business.

The Companies Act provides that, subject to confirmation by the Grand Court of the Cayman Islands, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

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Subject to the detailed provisions of the Companies Act, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. The manner of such a purchase must be authorised either by the articles of association or by an ordinary resolution of the company. The articles of association may provide that the manner of purchase may be determined by the directors of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company for the purchase of, or subscription for, its own or its holding company’s shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and to act in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm’s-length basis.

4 Dividends and Distributions

With the exception of section 34 of the Companies Act, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands in this area, dividends may be paid only out of profits. In addition, section 34 of the Companies Act permits, subject to a solvency test and the provisions, if any, of the company’s memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 3 above for details).

5 Shareholders’ Suits

The Cayman Islands courts can be expected to follow English case law precedents. The rule in *Foss v. Harbottle* (and the exceptions thereto which permit a minority shareholder to commence a class action against or derivative actions in the name of the company to challenge (a) an act which is *ultra vires* the company or illegal, (b) an act which constitutes a fraud against the minority where the wrongdoers are themselves in control of the company, and (c) an action which requires a resolution with a qualified (or special) majority which has not been obtained) has been applied and followed by the courts in the Cayman Islands.

6 Protection of Minorities

In the case of a company (not being a bank) having a share capital divided into shares, the Grand Court of the Cayman Islands may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Grand Court shall direct.

Any shareholder of a company may petition the Grand Court of the Cayman Islands which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

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Claims against a company by its shareholders must, as a general rule, be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company’s memorandum and articles of association.

The English common law rule that the majority will not be permitted to commit a fraud on the minority has been applied and followed by the courts of the Cayman Islands.

7 Disposal of Assets

The Companies Act contains no specific restrictions on the powers of directors to dispose of assets of a company. As a matter of general law, in the exercise of those powers, the directors must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the company.

8 Accounting and Auditing Requirements

The Companies Act requires that a company shall cause to be kept proper books of account with respect to:

- (a) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place;
- (b) all sales and purchases of goods by the company; and
- (c) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company’s affairs and to explain its transactions.

9 Register of Members

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as its directors may from time to time think fit. There is no requirement under the Companies Act for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

10 Inspection of Books and Records

Members of a company will have no general right under the Companies Act to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company’s articles of association.

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11 Special Resolutions

The Companies Act provides that a resolution is a special resolution when it has been passed by a majority of at least two-thirds of such members as, being entitled to do so, vote in person or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given, except that a company may in its articles of association specify that the required majority shall be a number greater than two-thirds, and may additionally so provide that such majority (being not less than two-thirds) may differ as between matters required to be approved by a special resolution. Written resolutions signed by all the members entitled to vote for the time being of the company may take effect as special resolutions if this is authorised by the articles of association of the company.

12 Subsidiary Owning Shares in Parent

The Companies Act does not prohibit a Cayman Islands company acquiring and holding shares in its parent company provided its objects so permit. The directors of any subsidiary making such acquisition must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the subsidiary.

13 Mergers and Consolidations

The Companies Act permits mergers and consolidations between Cayman Islands companies and between Cayman Islands companies and non-Cayman Islands companies. For these purposes, (a) “merger” means the merging of two or more constituent companies and the vesting of their undertaking, property and liabilities in one of such companies as the surviving company, and (b) “consolidation” means the combination of two or more constituent companies into a consolidated company and the vesting of the undertaking, property and liabilities of such companies to the consolidated company. In order to effect such a merger or consolidation, the directors of each constituent company must approve a written plan of merger or consolidation, which must then be authorised by (a) a special resolution of each constituent company and (b) such other authorisation, if any, as may be specified in such constituent company’s articles of association. The written plan of merger or consolidation must be filed with the Registrar of Companies of the Cayman Islands together with a declaration as to the solvency of the consolidated or surviving company, a list of the assets and liabilities of each constituent company and an undertaking that a copy of the certificate of merger or consolidation will be given to the members and creditors of each constituent company and that notification of the merger or consolidation will be published in the Cayman Islands Gazette. Dissenting shareholders have the right to be paid the fair value of their shares (which, if not agreed between the parties, will be determined by the Cayman Islands court) if they follow the required procedures, subject to certain exceptions. Court approval is not required for a merger or consolidation which is effected in compliance with these statutory procedures.

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14 Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by (a) 75% in value of shareholders, or (b) a majority in number representing 75% in value of creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the Grand Court of the Cayman Islands. Whilst a dissenting shareholder would have the right to express to the Grand Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Grand Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting shareholder would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of his shares) ordinarily available, for example, to dissenting shareholders of United States corporations.

15 Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Grand Court of the Cayman Islands within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Grand Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

16 Indemnification

Cayman Islands law does not limit the extent to which a company’s articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

17 Restructuring

A company may present a petition to the Grand Court of the Cayman Islands for the appointment of a restructuring officer on the grounds that the company:

- (a) is or is likely to become unable to pay its debts; and
- (b) intends to present a compromise or arrangement to its creditors (or classes thereof) either pursuant to the Companies Act, the law of a foreign country or by way of a consensual restructuring.

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The Grand Court may, among other things, make an order appointing a restructuring officer upon hearing of such petition, with such powers and to carry out such functions as the court may order. At any time (i) after the presentation of a petition for the appointment of a restructuring officer but before an order for the appointment of a restructuring officer has been made, and (ii) when an order for the appointment of a restructuring officer is made, until such order has been discharged, no suit, action or other proceedings (other than criminal proceedings) shall be proceeded with or commenced against the company, no resolution to wind up the company shall be passed, and no winding up petition may be presented against the company, except with the leave of the court. However, notwithstanding the presentation of a petition for the appointment of a restructuring officer or the appointment of a restructuring officer, a creditor who has security over the whole or part of the assets of the company is entitled to enforce the security without the leave of the court and without reference to the restructuring officer appointed.

18 Liquidation

A company may be placed in liquidation compulsorily by an order of the court, or voluntarily (a) by a special resolution of its members if the company is solvent, or (b) by an ordinary resolution of its members if the company is insolvent. The liquidator’s duties are to collect the assets of the company (including the amount (if any) due from the contributories (shareholders)), settle the list of creditors and discharge the company’s liability to them, rateably if insufficient assets exist to discharge the liabilities in full, and to settle the list of contributories and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

19 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.

20 Taxation

Pursuant to section 6 of the Tax Concessions Act (As Revised) of the Cayman Islands, our Company may obtain an undertaking from the Financial Secretary of the Cayman Islands:

- (a) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to our Company or its operations; and
- (b) in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable:
 - (i) on or in respect of the shares, debentures or other obligations of our Company; or
 - (ii) by way of the withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Act (As Revised).

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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 our Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties that are applicable to any payments made by or to our Company.

21 Exchange Control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

22 General

Maples and Calder (Hong Kong) LLP, our Company’s legal advisers on Cayman Islands law, have sent to our Company a letter of advice summarising aspects of Cayman Islands company law. This letter, together with a copy of the Companies Act, is on display on the websites as referred to in the section headed “Documents on display” in Appendix V. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he/she is more familiar is recommended to seek independent legal advice.

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

A. FURTHER INFORMATION ABOUT OUR GROUP

1. Incorporation of our Company

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on June 12, 2018. Our Company has established its principal place of business in Hong Kong at Unit E708, 7/F, Ka Ming Court, No. 688–690 Castle Peak Road, Kowloon, Hong Kong and was registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part 16 of the Companies Ordinance on January 17, 2019. Mr. Chu Kai Chi of Flat C, 18/F, Tower 2, Marbella, 23 On Chun Street, Ma On Shan, New Territories, Hong Kong has been appointed as the authorized representative of our Company for the acceptance of service of process and notices on behalf of our Company in Hong Kong.

As our Company was incorporated in the Cayman Islands, our operations are subject to the Cayman Companies Act, the Memorandum and the Articles, and the applicable laws of the Cayman Islands. A summary of certain provisions of the Memorandum and the Articles, and relevant aspects of the Cayman Companies Act is set out in Appendix III to this document.

2. Changes in the share capital in our Company

As of the date of incorporation of our Company, the authorized share capital of our Company was HK\$380,000 divided into 38,000,000 Shares. Upon its incorporation, one Share was issued and allotted to an initial subscriber who is an Independent Third Party on June 12, 2018, which was transferred to Great Shine at par on the same date.

On June 20, 2018, our Company issued and allotted in aggregate 49,999 Shares at par, as to (i) 9,999 Shares to Great Shine; (ii) 10,000 Shares to High Triumph; (iii) 10,000 Shares to Neo Honour; (iv) 10,000 Shares to Joyful Treasure; and (v) 10,000 Shares to Mighty Yellow.

On November 24, 2020, our Company repurchased and cancelled 10,000 Shares held by Joyful Treasure.

On May 14, 2021, our Company issued and allotted a total of 960,000 Shares to the offshore investment vehicles of the beneficial owners of Wangchen Technology (including Yashang Yueke and Suzhou Youshun upon their exercise of the Yashang Yueke Warrant and the Suzhou Youshun Warrant, respectively) to substantially reflect their original beneficial shareholding in Wangchen Technology at our Company’s level, details of which are set out in the section headed “History, Reorganization and Corporate Structure — 7. Issue of Shares to certain offshore investment vehicles to substantially reflect the original beneficial shareholding in Wangchen Technology” in this document.

Pursuant to the written resolutions of our Shareholders passed on December 21, 2022, the authorized share capital of our Company was increased from HK\$380,000 divided into 38,000,000 Shares to HK\$100,000,000 divided into 10,000,000,000 Shares by the creation of an additional 9,962,000,000 Shares.

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Immediately following completion of the [REDACTED] and the [REDACTED] and full conversion of the Pre-[REDACTED] Convertible Bonds (assuming no adjustment to the conversion price) and without taking into account any Shares which may be issued upon the exercise of the options which may be granted under the Share Option Scheme, the issued share capital of our Company will be HK\$[REDACTED] divided into [REDACTED] Shares of HK\$0.01 each, all fully paid or credited as fully paid, and [REDACTED] Shares will remain unissued.

Save as disclosed above and as mentioned in “— 3. Written resolutions of our Shareholders passed on December 21, 2022” below in this section, there has been no alteration in the share capital of our Company since its incorporation.

3. Written resolutions of our Shareholders passed on December 21, 2022

Pursuant to the written resolutions passed by our Shareholders on December 21, 2022, among other matters:

- (a) we approved and conditionally adopted the amended and restated Memorandum which will become effect upon [REDACTED];
- (b) we approved and conditionally adopted the amended and restated Articles which will become effect upon [REDACTED];
- (c) the authorized share capital of our Company was increased from HK\$380,000 divided into 38,000,000 Shares to HK\$100,000,000 divided into 10,000,000,000 Shares by the creation of an additional 9,962,000,000 Shares;
- (d) conditional on (aa) the Stock Exchange granting the approval for the [REDACTED] of, and permission to [REDACTED], the Shares in issue and Shares to be issued and allotted as mentioned in this document including the Shares which may be issued and allotted pursuant to the full conversion of the Pre-[REDACTED] Convertible Bonds and the exercise of the options which may be granted under the Share Option Scheme; (bb) the [REDACTED] having been duly determined; and (cc) the obligations of the Underwriters under the [REDACTED] becoming unconditional and not being terminated in accordance with the terms of such agreement (or any conditions as specified in this document), in each case on or before the dates and times specified in the [REDACTED];
 - (i) the [REDACTED] was approved and our Directors were authorized to issue and allot the Offer Shares pursuant to the [REDACTED];
 - (ii) the rules of the Share Option Scheme, the principal terms of which are set out in “— D. Other Information — 1. Share Option Scheme” below in this Appendix, were approved and adopted and our Directors were authorized, at their absolute discretion, to grant options to subscribe for Shares thereunder and to issue, allot and deal with Shares pursuant to the exercise of options granted under the Share Option Scheme; and

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- (iii) conditional on the share premium account of our Company being credited as a result of the issue of [REDACTED] by our Company pursuant to the [REDACTED], our Directors were authorized to capitalize an amount of HK\$[REDACTED] standing to the credit of the share premium account of our Company by applying such sum in paying up in full at par [REDACTED] Shares, such Shares to be allotted and issued to our Shareholder(s) as of the date of the passing of the resolution on a pro rata basis.
- (e) a general unconditional mandate was given to our Directors to issue, allot and [REDACTED] with (including the power to make an offer or agreement, or grant securities which would or might require Shares to be issued and allotted), otherwise than pursuant to a rights issue or pursuant to any scrip dividend schemes or similar arrangements providing for the issue and allotment of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles or pursuant to the grant of options under the Share Option Scheme or other similar arrangements or pursuant to a specific authority granted by the Shareholders in general meeting, unissued Shares not exceeding the aggregate of 20% of the number of issued Shares immediately following the completion of the [REDACTED] and the [REDACTED] (including Shares which may be allotted and issued upon conversion of the Pre-[REDACTED] Convertible Bonds immediately prior to the [REDACTED], but without taking into account of any Shares which may be allotted and issued pursuant to the exercise of the options which may be granted under the Share Option Scheme), such mandate to remain in effect until the conclusion of the next annual general meeting of our Company, or the expiration of the period within which the next annual general meeting of our Company is required by the Articles or any applicable laws to be held, or until revoked or varied by an ordinary resolution of our Shareholders in general meeting, whichever occurs first;
- (f) a general unconditional mandate (the “**Buyback Mandate**”) was given to our Directors authorizing them to exercise all powers of our Company to buy back on the Stock Exchange or on any other approved stock exchange on which the securities of our Company may be listed and which is recognized by the SFC and the Stock Exchange for this purpose such number of Shares as will represent up to 10% of the number of issued Shares immediately following the completion of the [REDACTED] and the [REDACTED] (including Shares which may be allotted and issued upon conversion of the Pre-[REDACTED] Convertible Bonds immediately prior to the [REDACTED], but without taking into account of any Shares which may be issued and allotted pursuant to the exercise of the options which may be granted under the Share Option Scheme), such mandate to remain in effect until the conclusion of the next annual general meeting of our Company, or the expiration of the period within which the next annual general meeting of our Company is required by the Articles or any applicable laws to be held, or until revoked or varied by an ordinary resolution of the Shareholders in general meeting, whichever occurs first; and
- (g) the general unconditional mandate mentioned in paragraph (e) above was extended by the addition to the number of issued Shares which may be issued and allotted or agreed conditionally or unconditionally to be issued and allotted by our Directors pursuant to such general mandate of an amount representing the total number of issued Shares bought back by our Company pursuant to the mandate to buy back Shares referred to in paragraph (f) above.

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4. Reorganization

In preparation for the [REDACTED], the companies comprising our Group underwent the Reorganization and our Company became the holding company of our Group. For further details with regard to the Reorganization, please see “History, Reorganization and Corporate Structure” in this document.

5. Changes in the share capital of our subsidiaries

Our subsidiaries are set out in the Accountant’s Report, the text of which is set out in Appendix I to this document. Save for the subsidiaries mentioned in the Accountant’s Report and in “History, Reorganization and Corporate Structure”, our Company has no other subsidiaries.

6. Buybacks of our own Shares

This section includes information required by the Stock Exchange to be included in this document concerning the buybacks by our Company of our own Shares.

(a) Provisions of the Listing Rules

The Listing Rules permit companies with a primary listing on the Stock Exchange to purchase their shares on the Stock Exchange subject to certain restrictions.

(i) Shareholders’ approval

The Listing Rules provide that all proposed buybacks of shares (which must be fully paid 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 its shareholders in general meeting, either by way of general mandate or by specific approval of a particular transaction.

(ii) Source of funds

Buybacks must be funded out of funds legally available for the purpose in accordance with the Articles and the laws of the Cayman Islands. Our Company may not buy back our own shares on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

(iii) Core connected persons

The Listing Rules prohibit our Company from knowingly buying back the Shares on the Stock Exchange from a “core connected person,” which includes, a Director, chief executive or substantial Shareholder of our Company or any of the subsidiaries or a close associate of any of them and a core connected person shall not knowingly sell Shares to our Company.

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(b) Reasons for buybacks

Our Directors believe that it is in the best interests of our Company and our Shareholders as a whole for our Directors to have a general authority from our Shareholders to enable our Company to buy back Shares in the market. Such buybacks may, depending on the market conditions and funding arrangements at the time, lead to an enhancement of our Company’s net asset value per Share and/or earnings per Share and will only be made when our Directors believe that such buybacks will benefit our Company and our Shareholders.

(c) Funding of buy-backs

In buying back Shares, our Company may only apply funds legally available for such purpose in accordance with our Articles, the Listing Rules and the applicable laws of the Cayman Islands.

It is presently proposed that any buyback of Shares will be made out of the profits of our Company, the share premium amount of our Company or the proceeds of a fresh issue of Shares made for the purpose of the buyback or, subject to the Cayman Companies Act, out of capital and, in the case of any premium payable on the purchase over the par value of the Shares to be bought back must be provided for, out of either or both of the profits of our Company or from sums standing to the credit of the share premium account of our Company or, subject to the Cayman Companies Act, out of capital.

On the basis of the current financial position of our Group as disclosed in this document and taking into account the current working capital position of our Company, our Directors consider that, if the Buyback Mandate were to be exercised in full, it might have a material adverse effect on the working capital and/or the gearing position of our Group as compared to the position disclosed in this document. However, our Directors do not propose to exercise the Buyback Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements or the gearing levels of our Group which, in the opinion of our Directors are from time to time appropriate for our Group.

(d) Share capital

The exercise in full of the Buyback Mandate, on the basis of [REDACTED] Shares in issue immediately after the [REDACTED] (assuming the full conversion of the Pre-[REDACTED] Convertible Bonds but without taking into account of any Shares which may be issued pursuant to the exercise of the options that may be granted under the Share Option Scheme), would result in up to [REDACTED] Shares being bought back by our Company during the period until:

- (i) the conclusion of the next annual general meeting of our Company;
- (ii) the expiration of the period within which the next annual general meeting of our Company is required by the Articles or any applicable laws to be held; or
- (iii) the date on which the Buyback Mandate is varied or revoked by an ordinary resolution of our Shareholders in general meeting, whichever occurs first.

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(e) General

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their close associates (as defined in the Listing Rules), has any present intention if the Buyback Mandate is exercised to sell any Share(s) to our Company or our subsidiaries.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Buyback Mandate in accordance with the Listing Rules and the applicable laws of the Cayman Islands.

If as a result of a buyback of Shares pursuant to the Buyback Mandate, a Shareholder’s proportionate interest in the voting rights of our Company increases, such increase will be treated as an acquisition for the purposes of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert, depending on the level of increase of the Shareholders’ interest, could obtain or consolidate control of our Company and may become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code as a result of any such increase. Other than that, our Directors are not aware of any other consequences that would arise under the Takeovers Code if the Buyback Mandate is exercised.

If the Buyback Mandate is fully exercised immediately following completion of the Capitalization Issue and the [REDACTED] (assuming the full conversion of the Pre-[REDACTED] Convertible Bonds but without taking into account of any Shares which may be issued pursuant to the exercise of the options that may be granted under the Share Option Scheme), the total number of Shares which will be bought back pursuant to the Buyback Mandate will be [REDACTED] Shares, being [REDACTED] of the total number of Shares based on the aforesaid assumptions. Any buyback of Shares which results in the number of Shares held by the public being reduced to less than the prescribed minimum percentage of our Shares then in issue could only be implemented with the approval of the Stock Exchange to waive the Listing Rules requirements regarding the public float under Rule 8.08 of the Listing Rules. However, our Directors have no present intention to exercise the Buyback Mandate to such an extent as would result in an insufficient public float as prescribed under the Listing Rules.

No core connected person of our Company has notified our Group that he/she/it has a present intention to sell Shares to our Company, or has undertaken not to do so, if the Buyback Mandate is exercised.

B. FURTHER INFORMATION ABOUT OUR BUSINESS

1. Summary of material contracts

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of our Group within the two years preceding the date of this document and are or may be material:

- (a) a warrant dated March 16, 2021 issued by our Company for good and valuable consideration in favour of Mr. Jia with the right to purchase from our Company up to 18,868 Shares at an exercise price of HK\$0.01 per Share and an exercise period of 12 months following March 16, 2021;

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- (b) a warrant dated March 16, 2021 issued by our Company for good and valuable consideration in favour of Mr. Jia with the right to purchase from our Company up to 25,472 Shares at an exercise price of HK\$0.01 per Share and an exercise period of 12 months following March 16, 2021;
- (c) a warrant dated March 16, 2021 issued by our Company for good and valuable consideration in favour of Foshan Yashangyueke Center for Internet Investing (Limited Partnership) (佛山亞商粵科互聯網投資中心(有限合夥)) with the right to purchase from our Company up to 18,868 Shares at an exercise price of HK\$0.01 per Share and an exercise period of 12 months following March 16, 2021;
- (d) a warrant dated March 16, 2021 issued by our Company for good and valuable consideration in favour of Suzhou Youshun Venture Capital Partnership (Limited Partnership) (蘇州優順創業投資合夥企業(有限合夥)) with the right to purchase from our Company up to 25,472 Shares at an exercise price of HK\$0.01 per Share and an exercise period of 12 months following March 16, 2021;
- (e) an exclusive business cooperation agreement dated May 13, 2021 entered into between WFOE and Wangchen Technology, as further set out in the section headed “Contractual Arrangements — Summary of the agreements under the Contractual Arrangements and other key terms thereunder — Exclusive Business Cooperation Agreement” of this document;
- (f) an exclusive option agreement dated May 13, 2021 entered into among WFOE, the Registered Shareholders and Wangchen Technology, as further set out in the section headed “Contractual Arrangements — Summary of the agreements under the Contractual Arrangements and other key terms thereunder — Exclusive Option Agreement” of this document;
- (g) an equity pledge agreement dated May 13, 2021 entered into among WFOE, the Registered Shareholders and Wangchen Technology, as further set out in the section headed “Contractual Arrangements — Summary of the agreements under the Contractual Arrangements and other key terms thereunder — Equity Pledge Agreement” of this document;
- (h) a power of attorney dated May 13, 2021 executed by Mr. Jia pursuant to which Mr. Jia irrevocably appointed WFOE and its appointees as his exclusive agent and attorney-in-fact to act on his behalf on all matters concerning Wangchen Technology and to exercise all of his rights as a registered shareholder of Wangchen Technology in accordance with the PRC laws and the articles of association of Wangchen Technology;
- (i) a power of attorney dated May 13, 2021 executed by Mr. Huang pursuant to which Mr. Huang irrevocably appointed WFOE and its appointees as his exclusive agent and attorney-in-fact to act on his behalf on all matters concerning Wangchen Technology and to exercise all of his rights as a registered shareholder of Wangchen Technology in accordance with the PRC laws and the articles of association of Wangchen Technology;

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- (j) a power of attorney dated May 13, 2021 executed by Suzhou Fudebo pursuant to which Suzhou Fudebo irrevocably appointed WFOE and its appointees as its exclusive agent and attorney-in-fact to act on its behalf on all matters concerning Wangchen Technology and to exercise all of its rights as a registered shareholder of Wangchen Technology in accordance with the PRC laws and the articles of association of Wangchen Technology;
- (k) a power of attorney dated May 13, 2021 executed by Zhuiyuan Caifu pursuant to which Zhuiyuan Caifu irrevocably appointed WFOE and its appointees as its exclusive agent and attorney-in-fact to act on its behalf on all matters concerning Wangchen Technology and to exercise all of its rights as a registered shareholder of Wangchen Technology in accordance with the PRC laws and the articles of association of Wangchen Technology;
- (l) a power of attorney dated May 13, 2021 executed by Wangnuo Kanpu pursuant to which Wangnuo Kanpu irrevocably appointed WFOE and its appointees as its exclusive agent and attorney-in-fact to act on its behalf on all matters concerning Wangchen Technology and to exercise all of its rights as a registered shareholder of Wangchen Technology in accordance with the PRC laws and the articles of association of Wangchen Technology;
- (m) a power of attorney dated May 13, 2021 executed by Wangbo Nawu pursuant to which Wangbo Nawu irrevocably appointed WFOE and its appointees as its exclusive agent and attorney-in-fact to act on its behalf on all matters concerning Wangchen Technology and to exercise all of its rights as a registered shareholder of Wangchen Technology in accordance with the PRC laws and the articles of association of Wangchen Technology;
- (n) a power of attorney dated May 13, 2021 executed by Yashang Mobeier pursuant to which Yashang Mobeier irrevocably appointed WFOE and its appointees as its exclusive agent and attorney-in-fact to act on its behalf on all matters concerning Wangchen Technology and to exercise all of its rights as a registered shareholder of Wangchen Technology in accordance with the PRC laws and the articles of association of Wangchen Technology;
- (o) a power of attorney dated May 13, 2021 executed by Tap4fun pursuant to which Tap4fun irrevocably appointed WFOE and its appointees as its exclusive agent and attorney-in-fact to act on its behalf on all matters concerning Wangchen Technology and to exercise all of its rights as a registered shareholder of Wangchen Technology in accordance with the PRC laws and the articles of association of Wangchen Technology;
- (p) a power of attorney dated May 13, 2021 executed by Yashang Nuohui pursuant to which Yashang Nuohui irrevocably appointed WFOE and its appointees as its exclusive agent and attorney-in-fact to act on its behalf on all matters concerning Wangchen Technology and to exercise all of its rights as a registered shareholder of Wangchen Technology in accordance with the PRC laws and the articles of association of Wangchen Technology;

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- (q) a power of attorney dated May 13, 2021 executed by Chengwang Investment pursuant to which Chengwang Investment irrevocably appointed WFOE and its appointees as its exclusive agent and attorney-in-fact to act on its behalf on all matters concerning Wangchen Technology and to exercise all of its rights as a registered shareholder of Wangchen Technology in accordance with the PRC laws and the articles of association of Wangchen Technology;
- (r) a power of attorney dated May 13, 2021 executed by Shenzhen Yunda pursuant to which Shenzhen Yunda irrevocably appointed WFOE and its appointees as its exclusive agent and attorney-in-fact to act on its behalf on all matters concerning Wangchen Technology and to exercise all of its rights as a registered shareholder of Wangchen Technology in accordance with the PRC laws and the articles of association of Wangchen Technology;
- (s) a power of attorney dated May 13, 2021 executed by Chuangxingu pursuant to which Chuangxingu irrevocably appointed WFOE and its appointees as its exclusive agent and attorney-in-fact to act on its behalf on all matters concerning Wangchen Technology and to exercise all of its rights as a registered shareholder of Wangchen Technology in accordance with the PRC laws and the articles of association of Wangchen Technology;
- (t) a power of attorney dated May 13, 2021 executed by Longyuan Tianqi pursuant to which Longyuan Tianqi irrevocably appointed WFOE and its appointees as its exclusive agent and attorney-in-fact to act on its behalf on all matters concerning Wangchen Technology and to exercise all of its rights as a registered shareholder of Wangchen Technology in accordance with the PRC laws and the articles of association of Wangchen Technology;
- (u) a power of attorney dated May 13, 2021 executed by Mr. Zhang Litao (張栗滔) pursuant to which Mr. Zhang Litao irrevocably appointed WFOE and its appointees as his exclusive agent and attorney-in-fact to act on his behalf on all matters concerning Wangchen Technology and to exercise all of his rights as a registered shareholder of Wangchen Technology in accordance with the PRC laws and the articles of association of Wangchen Technology;
- (v) a power of attorney dated May 13, 2021 executed by Mr. Li Xin (李欣) pursuant to which Mr. Li Xin irrevocably appointed WFOE and its appointees as his exclusive agent and attorney-in-fact to act on his behalf on all matters concerning Wangchen Technology and to exercise all of his rights as a registered shareholder of Wangchen Technology in accordance with the PRC laws and the articles of association of Wangchen Technology;
- (w) a power of attorney dated May 13, 2021 executed by Longyuan Yunteng pursuant to which Longyuan Yunteng irrevocably appointed WFOE and its appointees as its exclusive agent and attorney-in-fact to act on its behalf on all matters concerning Wangchen Technology and to exercise all of its rights as a registered shareholder of Wangchen Technology in accordance with the PRC laws and the articles of association of Wangchen Technology;

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- (x) a power of attorney dated May 13, 2021 executed by Jiadao Gongcheng pursuant to which Jiadao Gongcheng irrevocably appointed WFOE and its appointees as its exclusive agent and attorney-in-fact to act on its behalf on all matters concerning Wangchen Technology and to exercise all of its rights as a registered shareholder of Wangchen Technology in accordance with the PRC laws and the articles of association of Wangchen Technology;
- (y) a power of attorney dated May 13, 2021 executed by Wangsheng Xiluo pursuant to which Wangsheng Xiluo irrevocably appointed WFOE and its appointees as its exclusive agent and attorney-in-fact to act on its behalf on all matters concerning Wangchen Technology and to exercise all of its rights as a registered shareholder of Wangchen Technology in accordance with the PRC laws and the articles of association of Wangchen Technology;
- (z) a power of attorney dated May 13, 2021 executed by Mr. Ma Guolin (馬國琳) pursuant to which Mr. Ma Guolin irrevocably appointed WFOE and its appointees as his exclusive agent and attorney-in-fact to act on his behalf on all matters concerning Wangchen Technology and to exercise all of his rights as a registered shareholder of Wangchen Technology in accordance with the PRC laws and the articles of association of Wangchen Technology;
- (aa) a termination agreement dated May 13, 2021 entered into among Wangchen Technology, (1) Mr. Jia, (2) Mr. Huang, (3) Suzhou Fudebo, (4) Zhuiyuan Caifu, (5) Wangnuo Kanpu, (6) Yashang Mobeier, (7) Tap4fun, (8) Yashang Nuohui, (9) Chengwang Investment, (10) Shenzhen Yunda, (11) Longyuan Tianqi, (12) Chuangxing, (13) Mr. Zhang Litao (張栗滔), (14) Mr. Li Xin (李欣), (15) Wangbo Nawu, (16) Longyuan Yunteng, (17) Jiadao Gongcheng, (18) Wangsheng Xiluo and (19) Mr. Ma Guolin (馬國琳) in relation to the suspension of certain shareholders’ rights under the agreements listed in appendix 2 thereto;
- (bb) an equity transfer agreement dated June 9, 2021 entered into between Mr. Wu Qing (吳慶) as transferor and the WFOE as transferee, pursuant to which Mr. Wu Qing agreed to transfer 3% equity interest in Chuangzhen Shijie to the WFOE at a consideration of RMB1;
- (cc) an agreement dated June 16, 2021 entered into among our Company as issuer, Garena Ventures as subscriber, Mr. Jia, Mr. Huang, the WFOE, Wangchen Technology, Gala Technology (BVI), Gala Technology (HK) and Gala Sports HK, pursuant to which Garena Ventures agreed to subscribe for the Pre-[REDACTED] Convertible Bonds in the principal amount of HK\$77,112,000, as further set out in the section headed “History, Reorganization and Corporate Structure — Pre-[REDACTED] Investments — The Pre-[REDACTED] CB Subscription” of this document;

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- (dd) a convertible bond instrument dated June 21, 2021 executed by our Company as issuer constituting the Pre-[REDACTED] Convertible Bonds;
- (ee) a deed dated May 31, 2022 executed by our Company and Garena Ventures, pursuant to which the maturity date of the Pre-[REDACTED] Convertible Bonds was extended from June 6, 2022 to June 6, 2023;
- (ff) a keepwell deed dated June 16, 2021 entered into among our Company, the WFOE, Wangchen Technology and Garena Ventures, pursuant to which the WFOE and Wangchen Technology agreed to procure that our Company will, for so long as the Pre-[REDACTED] Convertible Bonds remains outstanding, remain solvent and have sufficient liquidity to ensure timely payment by our Company of any amounts under the Pre-[REDACTED] CB Subscription Agreement, the Pre-[REDACTED] Convertible Bonds and the keepwell deed, and to make sufficient funds available to our Company to enable our Company to pay such payment obligations as they fall due;
- (gg) an exclusive business cooperation agreement dated November 15, 2022 entered into between WFOE and Moji Technology, as further set out in the section headed “Contractual Arrangements — Summary of the agreements under the Contractual Arrangements and other key terms thereunder — Exclusive Business Cooperation Agreement” of this document;
- (hh) an exclusive option agreement dated November 15, 2022 entered into among WFOE, Wangchen Technology and Moji Technology, as further set out in the section headed “Contractual Arrangements — Summary of the agreements under the Contractual Arrangements and other key terms thereunder — Exclusive Option Agreement” of this document;
- (ii) an equity pledge agreement dated November 15, 2022 entered into among WFOE, Wangchen Technology and Moji Technology, as further set out in the section headed “Contractual Arrangements — Summary of the agreements under the Contractual Arrangements and other key terms thereunder — Equity Pledge Agreement” of this document;
- (jj) a power of attorney dated November 15, 2022 executed by Wangchen Technology pursuant to which Wangchen Technology irrevocably appointed WFOE and its appointees as its exclusive agent and attorney-in-fact to act on its behalf on all matters concerning Moji Technology and to exercise all of its rights as a registered shareholder of Moji Technology in accordance with the PRC laws and the articles of association of Moji Technology;
- (kk) the Deed of Indemnity; and
- (ll) the [REDACTED].

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2. Intellectual property rights of our Group

(a) Trademarks

As of the Latest Practicable Date, we had registered the following trademarks which, in the opinion of our Directors, are material to our Group’s business:

No.	Trademark	Registered owner	Registration number	Class	Registration jurisdiction	Registration date (yyyy/mm/dd)	Expiry date (yyyy/mm/dd)
1.	籃球大師	Wangchen Technology	18818972	42	PRC	2017/05/21	2027/05/20
2.	InnoReal	Wangchen Technology	20882160	9	PRC	2017/09/28	2027/09/27
3.	InnoReal	Wangchen Technology	20882021	42	PRC	2017/09/28	2027/09/27
4.	InnoReal	Wangchen Technology	20881989	41	PRC	2017/10/07	2027/10/06
5.	冠軍球會	Wangchen Technology	31765976	9	PRC	2019/04/28	2029/04/27
6.	冠軍球會	Wangchen Technology	31781602	42	PRC	2019/06/07	2029/06/06
7.	冠軍球會	Wangchen Technology	31779013	35	PRC	2019/06/07	2029/06/06
8.	冠軍球會	Wangchen Technology	31771202	41	PRC	2019/06/07	2029/06/06
9.	望尘体育科技	Wangchen Technology	52420221	35	PRC	2021/08/28	2031/08/27
10.	望尘体育科技	Wangchen Technology	52422461	9	PRC	2022/01/28	2032/01/27
11.		Wangchen Technology	27937607	9	PRC	2018/11/21	2028/11/20
12.		Wangchen Technology	20812002	41	PRC	2017/09/21	2027/09/20
13.	绿茵对决	Wangchen Technology	58205726	42	PRC	2022/02/07	2032/02/06
14.	绿茵对决	Wangchen Technology	58207376	35	PRC	2022/02/07	2032/02/06
15.	绿茵对决	Wangchen Technology	58214817	9	PRC	2022/02/07	2032/02/06
16.	绿茵对决	Wangchen Technology	58212771	41	PRC	2022/02/07	2032/02/06
17.	望尘	Wangchen Technology	58955757	42	PRC	2022/02/28	2032/02/27

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No.	Trademark	Registered owner	Registration number	Class	Registration jurisdiction	Registration date (yyyy/mm/dd)	Expiry date (yyyy/mm/dd)
18.	 望尘体育科技	Gala Sports HK	304560156	9, 41, 42	Hong Kong	2018/06/12	2028/06/11
19.	冠军球会	Wangchen Technology	107044745	42	Taiwan	2019/02/16	2029/02/15
20.		Wangchen Technology	724633	9, 41, 42	EU	2016/03/21	2025/03/11
21.	 望尘体育科技	Wangchen Technology	52399534	42	PRC	2022/04/14	2032/04/13
22.	望尘体育科技	Wangchen Technology	52406581	41	PRC	2022/04/14	2032/04/13
23.	 望尘体育科技	Wangchen Technology	52420243	41	PRC	2022/04/14	2032/04/13
24.	 望尘体育科技	Wangchen Technology	52428308	35	PRC	2022/04/14	2032/04/13
25.	望尘体育科技	Wangchen Technology	52431898	42	PRC	2022/04/14	2032/04/13
26.	 望尘体育科技	Wangchen Technology	52399849	9	PRC	2022/07/14	2032/07/13

(b) Patents

As at the Latest Practicable Date, we had registered the following patent in the PRC:

No.	Patent	Patentee	Patent number	Application date (yyyy/mm/dd)	Expiry date (yyyy/mm/dd)
1.	一種預先生成遊戲對戰片段的遊戲實現方法	Wangchen Technology	ZL201510839873.6	2015/11/27	2035/11/26

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(c) Copyrights

As of the Latest Practicable Date, we have registered the following software copyrights in the PRC:

No.	Software copyright	Registered owner	Registration Number	Registration date (yyyy/mm/dd)
1.	冠軍球會軟件V1.0	Wangchen Technology	2018SR418482	2018/06/05
2.	足球大咖軟件V1.0	Wangchen Technology	2017SR168879	2017/05/09
3.	冠軍中超軟件V1.0	Wangchen Technology	2017SR137738	2017/04/25
4.	NBA籃球大師軟件V1.0	Wangchen Technology	2017SR135315	2017/04/24
5.	足球大師2017軟件V1.0	Wangchen Technology	2016SR268208	2016/09/20
6.	足球大師黃金一代遊戲軟件V1.0	Wangchen Technology	2016SR175428	2016/07/11
7.	籃球大師隊徽及捏臉系統軟件V1.0	Wangchen Technology	2016SR083878	2016/04/22
8.	籃球大師軟件V1.0	Wangchen Technology	2016SR084444	2016/04/22
9.	籃球大師3D渲染引擎軟件V1.0	Wangchen Technology	2016SR084747	2016/04/22
10.	足球大師手機遊戲軟件V1.0	Wangchen Technology	2016SR076462	2016/04/14
11.	帳戶中心軟件V1.0	Wangchen Technology	2015SR259503	2015/12/14
12.	足球大師遊戲後台軟件V1.0	Wangchen Technology	2015SR257360	2015/12/12
13.	flash3D動畫引擎軟件V1.0	Wangchen Technology	2015SR255693	2015/12/11
14.	Flash3D渲染引擎軟件V1.0	Wangchen Technology	2015SR254237	2015/12/10
15.	足球大師2軟件V1.0	Wangchen Technology	2015SR151299	2015/08/05
16.	足球大師軟件V1.0	Wangchen Technology	2015SR140231	2015/07/22
17.	決戰世界杯軟件V1.0	Wangchen Technology	2014SR076792	2014/06/12
18.	虛擬籃球場景投籃互動體驗軟件V1.0	Wangchen Technology	2019SR0263847	2019/03/20
19.	冠軍球會比賽服務支撐系統V1.0	Wangchen Technology	2019SR0261435	2019/03/19
20.	籃球足球運球成像計時系統V1.0	Wangchen Technology	2019SR0263749	2019/03/20
21.	足球大師後台大資料分析系統V1.0	Wangchen Technology	2019SR0262891	2019/03/19
22.	世界杯足球大師賽事信息管理軟件V1.0	Wangchen Technology	2019SR0262888	2019/03/19
23.	冠軍球會邏輯服接口管理系統V1.0	Wangchen Technology	2019SR0262988	2019/03/19
24.	籃球運動技術分析軟件系統V1.0	Wangchen Technology	2019SR0262885	2019/03/19
25.	冠軍球會軟件V1.1	Wangchen Technology	2019SR0767251	2019/07/24
26.	最佳球會手機遊戲軟件 V1.0	Wangchen Technology	2019SR0853051	2019/08/16
27.	網遊服務器性能自動化測試系統V1.0	Wangchen Technology	2020SR0296008	2020/03/30
28.	應用於圖像渲染的環境探針遮擋判斷系統V1.0	Wangchen Technology	2020SR0296060	2020/03/30
29.	遊戲服務器場景進程負載均衡系統V1.0	Wangchen Technology	2020SR0296003	2020/03/30
30.	遊戲視頻智能同步軟件V1.0	Wangchen Technology	2020SR0296063	2020/03/30
31.	在線遊戲同場景負載能力提升系統V1.0	Wangchen Technology	2020SR0296782	2020/03/30
32.	綠茵對決手機遊戲軟件 (簡稱：綠茵對決)V1.0	Wangchen Technology	2021SR0326248	2021/03/02
33.	基於週期成本的遊戲資源緩存技術軟件V1.0	Wangchen Technology	2021SR0309281	2021/02/26
34.	虛擬角色模擬真實頭髮模型的軟件V1.0	Wangchen Technology	2021SR0309280	2021/02/26
35.	動態組隊匹配軟件 V1.0	Wangchen Technology	2021SR0309231	2021/02/26
36.	移動終端日誌的循環擦寫軟件V1.0	Wangchen Technology	2021SR0309279	2021/02/26
37.	遊戲內動態調整渲染等級的軟件系統V1.0	Wangchen Technology	2021SR0309278	2021/02/26
38.	遊戲人物設計模擬類比展示系統V1.0	Wangchen Technology	2022SR0137985	2021/06/30
39.	遊戲開發素材庫管控系統V1.0	Wangchen Technology	2022SR0137624	2022/01/21
40.	遊戲充值收費管理系統V1.0	Wangchen Technology	2022SR0137981	2022/01/21

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No.	Software copyright	Registered owner	Registration Number	Registration date (yyyy/mm/dd)
41.	遊戲畫面調試控制系統V1.0	Wangchen Technology	2022SR0137977	2022/01/21
42.	體育遊戲操控輔助控制系統V1.0	Wangchen Technology	2022SR0137986	2022/01/21
43.	遊戲運營伺服器管理系統V1.0	Wangchen Technology	2022SR0137978	2022/01/21
44.	遊戲踢球人物模型設計應用軟體V1.0	WFOE	2022SR0082974	2022/01/12
45.	遊戲網路伺服器串口管理系統V1.0	WFOE	2022SR0082973	2022/01/12
46.	遊戲對戰片段廣告製作系統V1.0	WFOE	2021SR1823598	2021/11/22
47.	遊戲灌籃動作模擬設計輔助軟體V1.0	WFOE	2021SR1823599	2021/11/22
48.	體育遊戲觸發式禮包銷售系統V1.0	WFOE	2021SR1704087	2021/11/11
49.	體育遊戲內資源管理及動態更新系統V1.0	WFOE	2021SR1700843	2021/11/11
50.	體育遊戲內紅點提醒快速配置及管理系統V1.0	WFOE	2021SR1519908	2021/10/18
51.	活動配置管理後台系統V1.0	WFOE	2021SR1519943	2021/10/18
52.	體育遊戲人物影像處理系統軟體V1.0	WFOE	2021SR1356933	2021/09/10
53.	虛擬角色三維立體模型設計顏色自動填充軟體V1.0	WFOE	2021SR1356939	2021/09/10
54.	體育遊戲人物形象設計輔助軟體V1.0	WFOE	2021SR1220996	2021/08/18
55.	遊戲角色設計輔助軟體V1.0	WFOE	2021SR1217192	2021/08/17
56.	最佳11人遊戲軟體V1.0	WFOE	2021SR0903006	2021/06/16
57.	棒球大師軟體V1.0	WFOE	2022SR0249039	2022/02/18
58.	棒球遊戲人物設定仿真模擬展示系統V1.0	WFOE	2022SR0883394	2022/07/04
59.	最佳球會遊戲操控輔助控制系統V1.0	WFOE	2022SR0883479	2022/07/04
60.	NBA籃球大師充值收費管理系統V1.0	WFOE	2022SR1093108	2022/08/11
61.	足球大師畫面調試控制系統V1.0	WFOE	2022SR1093107	2022/08/11
62.	最佳11人遊戲畫面製作渲染輔助工具軟體V1.0	WFOE	2022SR1093142	2022/08/11
63.	最佳11人遊戲運營後台管理系統V1.0	WFOE	2022SR1093141	2022/08/11
64.	足球大師遊戲關卡設計開發系統V1.0	WFOE	2022SR1093437	2022/08/11
65.	基於互聯網的NBA籃球大師遊戲服務器故障維護系統V1.0	WFOE	2022SR1093109	2022/08/11

(d) Domain Names

As at the Latest Practicable Date, we have registered the following domain names:

No.	Domain name	Registrant	Registration place	Registration date (yyyy/mm/dd)	Expiry date (yyyy/mm/dd)
1.	galasports.cn	Wangchen Technology	PRC	2017/03/13	2024/03/13
2.	unparallel.cn	Moji Technology	PRC	2016/07/22	2025/07/22
3.	basketballmaster.cn	Wangchen Technology	PRC	2016/01/13	2025/01/13
4.	galasports.com.cn	Wangchen Technology	PRC	2019/07/10	2024/07/10
5.	footballmaster.cn	Wangchen Technology	PRC	2015/06/12	2023/06/12 ^(Note)

Note: Our Directors confirm that our Group will renew the registration of such domain name when approaching expiry and are of the view that there is no material legal impediment or difficulty to renew the registration of such domain name.

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C. FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

1. Directors

(a) Disclosure of Interests — Interests and short positions of our Directors and the chief executive in the shares, underlying shares or debentures of our Company and our associated corporations

Immediately following completion of the [REDACTED] and the [REDACTED] and assuming the full conversion of the Pre-[REDACTED] Convertible Bonds, the interests or short positions of our Directors or chief executives of our Company in the shares, underlying shares and debentures of our Company or its associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to our Company and the Stock Exchange, once our Shares are [REDACTED] will be as follows:

(i) Interest in our Company

Name of Director	Nature of Interest	Number of Shares Interested ⁽¹⁾	Approximate percentage of interest
Mr. Jia	Interest in controlled corporation (<i>Note 2</i>)	[REDACTED] Shares (L)	[REDACTED]
Mr. Huang	Interest in controlled corporation (<i>Note 3</i>)	[REDACTED] Shares (L)	[REDACTED]
Mr. Li Xin	Interest in controlled corporation (<i>Note 4</i>)	[REDACTED] Shares (L)	[REDACTED]

Notes:

- (1) The letter “L” denotes the person’s long position in our Shares.
- (2) Mr. Jia is the sole shareholder of Great Shine. By virtue of the SFO, Mr. Jia is deemed to be interested in all the Shares held by Great Shine.
- (3) Mr. Huang is the sole shareholder of High Triumph. By virtue of the SFO, Mr. Huang is deemed to be interested in all the Shares held by High Triumph.
- (4) Mr. Li Xin is the sole shareholder of Neo Honour. By virtue of the SFO, Mr. Li Xin is deemed to be interested in all the Shares held by Neo Honour.

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(ii) Interest in associated corporations of our Company

Name of Director or chief executive	Name of associated corporation	Nature of interest	Approximate percentage shareholding interest
Mr. Jia	Wangchen Technology	Beneficial owner	23.53%
		Interest in controlled corporations (<i>Note 1</i>)	15.12%
Mr. Huang	Wangchen Technology	Beneficial owner	17.40%
Mr. Li Xin	Wangchen Technology	Beneficial owner	2.33%
		Interest in controlled corporations (<i>Note 2</i>)	1.00%

Notes:

- (1) Mr. Jia is a general partner of Wangbo Nawu, Wangsheng Xiluo, Chengwang Investment and Wangnuo Kanpu. By virtue of the SFO, Mr. Jia is deemed to be interested in the equity interest in Wangchen Technology held by Wangbo Nawu, Wangsheng Xiluo, Chengwang Investment and Wangnuo Kanpo.
- (2) Mr. Li Xin is a general partner of Wangsheng Xiluo. By virtue of the SFO, Mr. Li Xin is deemed to be interested in the equity interest in Wangchen Technology held by Wangsheng Xiluo.

(b) Particulars of service agreements and letters of appointment

Each of our executive Directors has entered into a service agreement with our Company for a term of three years commencing from the [REDACTED], which may be terminated by not less than three months’ notice in writing served by either party on the other.

Each of our independent non-executive Directors has entered into a letter of appointment with our Company for a term of three years commencing from the [REDACTED], which may be terminated by not less than three months’ notice in writing served by either party on the other.

(c) Directors’ remuneration

Each of our executive Directors is entitled to a remuneration and shall be paid on the basis of a twelve-month year. The aggregate remuneration (including salary, bonus, social security costs and housing benefits and other employee benefits) paid by our Group to our Directors in respect of the three years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022 were approximately RMB2.7 million, RMB2.8 million, RMB2.7 million and RMB1.3 million, respectively. For details, please refer to note 9(b) of the accountant’s report set out in Appendix I to this document.

Each of our independent non-executive Directors has been appointed for a term of three years. We intend to pay a director’s fee of RMB120,000 per annum to each of our independent non-executive Directors. Save 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.

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Under the arrangement currently in force, the aggregate remuneration (including salary, bonus, social security costs and housing benefits and other employee benefits) of our Directors for the year ending December 31, 2022 is estimated to be not more than RMB3.5 million.

2. Substantial shareholders

Saved as disclosed in “Substantial Shareholders” in this document, so far as our Directors are aware, immediately following the completion of the [REDACTED] and the [REDACTED] and without taking into account of any Shares that may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, no person (other than our Directors and chief executives of our Company) will have an interest and/or short position in our Shares or the underlying Shares which would fall to be disclosed under the provisions of Division 2 and 3 of Part XV of the SFO, or are directly or indirectly, interested in 10% or more of the issued voting shares of any other member of our Group.

3. Agency fees or commissions received

Save as disclosed in the section headed “[REDACTED] — [REDACTED] and expenses — [REDACTED] and expenses” of this document and save in connection with the [REDACTED], none of the Directors or any of the persons whose names are listed under “— D. Other Information — 9. Qualification of experts” below in this section had received any commissions, discounts, brokerages or other special terms in connection with the issue or sale of any capital of any member of our Group within the two years immediately preceding the date of this document.

4. Disclaimers

Save as disclosed in this document:

- (i) none of our Directors or chief executives of our Company has any interest or short position in our shares, underlying shares or debentures of our Company or any of its associated corporation (within the meaning 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 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 once our Shares are [REDACTED];
- (ii) none of our Directors or experts referred to “— D. Other Information — 9. Qualification of experts” in this Appendix has any direct or indirect interest in the promotion of our Company, or in any assets which have within the two years immediately preceding the date of this document been acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;
- (iii) none of our Directors is materially interested in any contract or arrangement subsisting at the date of this document which is significant in relation to the business of our Group taken as a whole;

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- (iv) none of our Directors has any existing or proposed service contracts with any member of our Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation));
- (v) taking no account of Shares which may be taken up under the [REDACTED], none of our Directors knows of any person (not being a Director or chief executive of our Company) who will, immediately following completion of the [REDACTED], have an interest or short position in our Shares or underlying Shares of our Company which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of SFO or be interested, directly or indirectly, in 10% or more of the issued voting shares of any member of our Group;
- (vi) none of the experts referred to under the paragraph headed “- D. Other information — 9. Qualification of experts” in this Appendix has any shareholding in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group; and
- (vii) so far as is known to our Directors as of the Latest Practicable Date, none of our Directors, their respective close associates (as defined under the Listing Rules) or Shareholders of our Company who are interested in more than 5% of the issued share capital of our Company has any interests in the five largest customers or the five largest suppliers of our Group.

D. OTHER INFORMATION

1. Share Option Scheme

The following is a summary of the principal terms of the Share Option Scheme conditionally adopted by the written resolutions of our Shareholders passed on December 21, 2022 (the “**Adoption Date**”).

(a) Purpose

The Share Option Scheme is a share incentive scheme prepared in accordance with Chapter 17 of the Listing Rules and is established to recognize and acknowledge the contributions that the Eligible Participants (as defined in paragraph (b) below) 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) motivate the Eligible Participants to optimize their performance efficiency for the benefit of our Group; and
- (ii) attract and retain or otherwise maintain an on-going relationship with the Eligible Participants whose contributions are or will be beneficial to the long-term growth of our Group.

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(b) Who may join

The Board may, at its discretion, offer to grant an option to the following persons (collectively the “**Eligible Participants**”) to subscribe for such number of new Shares as the Board may determine at an exercise price determined in accordance with paragraph (f) below:

- (i) any full-time or part-time employees, executives or officers of our Company or any of its subsidiaries; and
- (ii) any directors (including non-executive directors and independent non-executive directors) of our Company or any of its subsidiaries.

Upon acceptance of the option, the grantee shall pay HK\$1.00 to our Company by way of consideration for the grant.

(c) Acceptance of an offer of options

An option shall be deemed to have been granted and accepted by the grantee and to have taken effect when the duplicate offer document constituting acceptances of the options duly signed by the grantee, together with a remittance or payment in favor of our Company of HK\$1.00 by way of consideration for the grant thereof, is received by our Company on or before the relevant acceptance date. Such remittance or 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 [REDACTED] provided that it is accepted in respect of a board lot for [REDACTED] Shares on the Stock Exchange or an integral multiple thereof and such number is clearly stated in the duplicate offer document constituting acceptance of the option. To the extent that the offer to grant an option is not accepted by any prescribed acceptance date, it shall be deemed to have been irrevocably declined.

Subject to paragraphs (l), (m), (n), (o) and (p), an option shall be exercised in whole or in part and, other than where it is exercised to the full extent outstanding, shall be exercised in integral multiples of such number of Shares as shall represent one board lot for [REDACTED] 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 or payment for the full amount of the exercise [REDACTED] for our Shares in respect of which the notice is given. Within 21 days after receipt of the notice and the remittance or payment and, where appropriate, receipt of the certificate by the auditors to 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 our Shares so allotted.

The exercise of any option shall be subject to our Shareholders in general meeting approving any necessary increase in the authorized share capital of our Company.

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The vesting period of any options shall not be less than 12 months. Options granted to an Eligible Participant may be subject to a shorter vesting period under any of the following circumstances:

- (i) where the options are granted in assumption of, or in substitution or exchange for, an award previously granted, or the right or obligation to make a future award, in all cases by a company acquired by our Company or any of our subsidiary or with which our Company or any of our subsidiary combines;
- (ii) where the Shares to be issued upon the exercise of such options are subject to a minimum holding period of not less than 12 months and are delivered to an Eligible Participant under his/her compensation arrangements with our Company, including Shares delivered to a non-employee director in respect of such non-employee director’s annual retainer;
- (iii) where the options are sign-on or make-whole grants to new Eligible Participants;
- (iv) where the options are subject to performance-based vesting conditions;
- (v) where the options are granted in batches for administrative or compliance reasons;
- (vi) where the options shall vest evenly over a period of 12 months or more;
- (vii) where the options are subject to a total vesting and holding period of more than 12 months; or
- (viii) in cases of retirement, separation, retention arrangements, death, disability or a change in control of our Company, our Board may accelerate the vesting of the options at its sole discretion.

(d) *Maximum number of Shares*

The maximum number of Shares in respect of which options may be granted under the Share Option Scheme and under any other share option schemes of our Company must not in aggregate exceed 10% (the “**Scheme Limit**”) of the total number of Shares in issue immediately following completion of the [REDACTED], being [REDACTED] Shares (assuming the full conversion of the Pre-[REDACTED] Convertible Bonds). As of the date of grant of any options under the Share Option Scheme, the maximum number of Shares in respect of which options may be granted is such number of Shares less the aggregate of the following:

- (i) the number of Shares which would be issued on the exercise in full of the options under the Share Option Scheme or under any other share schemes of our Company but not cancelled or exercised;
- (ii) the number of Shares which have been issued and allotted pursuant to the exercise of any options under the Share Option Scheme or under any other share schemes of our Company or any awards granted under any other share schemes of our Company; and

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- (iii) the number of those Shares which were the subject of options which had been granted and accepted under the Share Option Scheme and any other share schemes of our Company but subsequently cancelled.

Subject to the approval of our Shareholders in general meeting in compliance with Rules 17.03C(1) and 17.03C(2) of the Listing Rules and/or such other requirements prescribed under the Listing Rules from time to time, the Board may refresh the Scheme Limit from time to time to 10% of our Shares in issue (“**New Scheme Limit**”) as at the date of the approval by our Shareholders in general meeting (“**New Approval Date**”). Any refreshment within any three year period from the date of our Shareholders’ approval for the last refreshment (or the adoption of the Share Option Scheme) must be approved by our Shareholders subject to the following provisions:

- (i) any controlling shareholders and their associates (or if there is no controlling shareholder, directors (excluding independent non-executive directors) and the chief executive of our Company and their respective associates) abstaining from voting in favour of the relevant resolution at the general meeting of our Company; and
- (ii) our Company must comply with the requirements under Rules 13.39(6) and (7), 13.40, 13.41 and 13.42 of the Listing Rules,

and thereafter, as of the date of grant of any options under the Share Option Scheme, the maximum number of Shares in respect of which options may be granted is the New Scheme Limit less the aggregate of the following:

- (i) the number of Shares which would be issued on the exercise in full of the options under the Share Option Scheme or under any other share schemes of our Company granted on or after the New Approval Date but not cancelled or exercised;
- (ii) the number of Shares which have been issued and allotted pursuant to the exercise of any options under the Share Option Scheme or under any other share schemes of our Company or any awards granted under any other share schemes of our Company granted on or after the New Approval Date; and
- (iii) the number of those Shares which were the subject of options which had been granted on or after the New Approval Date and accepted under the Share Option Scheme and any other share schemes of our Company but subsequently cancelled.

Subject to the approval of our Shareholders in general meeting in compliance with Rule 17.03C(3) of the Listing Rules and/or such other requirements as prescribed under the Listing Rules from time to time, our Board may grant options exceeding the Scheme Limit to Eligible Participants specifically identified by our Board.

The Scheme Limit shall be adjusted, in such manner as the auditors of our Company or an approved independent financial advisor shall certify to be appropriate, fair and reasonable in the event of any alteration in the capital structure of our Company in accordance with paragraph (r) below whether by way of capitalization issue, rights issue, sub-division or consolidation of shares or reduction of the share capital of our Company.

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(e) Maximum number of options to any one individual

Our Board shall, subject to and in accordance with the provisions of the Share Option Scheme and the Listing Rules, be entitled to but shall not be bound, at any time on any business day during the Scheme Period (as defined in paragraph (j) below) offer to grant an option to any Eligible Participant whom our Board may in its absolute discretion select and subject to such conditions (including, without limitation, the vesting period and/or any performance targets as assessed in accordance with the Performance Measures (as defined in paragraph (k) below) during a specified performance period which must be achieved before an option can be exercised) as it may think fit.

If our Board determines to offer options under the Share Option Scheme to an Eligible Participant which, when aggregated with any Shares issued or to be issued in respect of all options or awards granted to that person (excluding any options or awards lapsed in accordance with the terms of the relevant schemes) under the Share Option Scheme and the other share schemes of our Company in any 12-month period up to and including the date of such offer, exceed 1% of the number of Shares in issue on the Offer Date:

- (i) the grant shall be subject to (a) the issue of a circular by our Company to our Shareholders which shall comply with Rules 17.03D and 17.06 of the Listing Rules and/or such other requirements as prescribed under the Listing Rules from time to time; and (b) the approval of our Shareholders in general meeting and/or such other requirements prescribed under the Listing Rules from time to time with such Eligible Participant and his close associates (or his/her associates if the Eligible Participant is a connected person) abstaining from voting.
- (ii) unless provided otherwise in the Listing Rules, the date of the Board meeting at which our Board resolved to grant the proposed options to such Eligible Participant shall be taken as the date of grant for the purpose of calculating the subscription price of our Shares.

The Board shall forward to such Eligible Participant an offer document in such form as the Board may from time to time determine (or, alternatively, documents accompanying the offer document which state), among others:

- (i) the Eligible Participant’s name, address and occupation;
- (ii) the date on which an option is offered to an Eligible Participant which must be a business day;
- (iii) the date upon which an offer for an option must be accepted;
- (iv) the date upon which an option is deemed to be granted and accepted in accordance with paragraph (c);

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- (v) the number of Shares in respect of which the option is offered;
- (vi) the subscription price and the manner of payment of such price for our Shares on and in consequence of the exercise of the option;
- (vii) the date of the expiry of the option as may be determined by the Board;
- (viii) the method of acceptance of the option which shall, unless the Board otherwise determines, be as set out in paragraph (c); and
- (ix) such other terms and conditions (including, without limitation, the vesting period and/or any performance targets as assessed in accordance with the Performance Measures (as defined in paragraph (k) below) during a specified performance period which must be achieved before the option can be exercised) relating to the offer of the option which in the opinion of the Board are fair and reasonable but not being inconsistent with Share Option Scheme and the Listing Rules.

(f) Price of Shares

Subject to any adjustments made as described in paragraph (r) below, the subscription price of a Share in respect of any particular option granted under the Share Option Scheme shall be such price as the Board in its absolute discretion shall determine, save that such price must be at least the higher of:

- (i) the closing price of our Shares as stated in the Stock Exchange’s daily quotation sheets on the date of grant, which must be a business day; and
- (ii) the average of the official closing prices of our Shares as stated in the Stock Exchange’s daily quotation sheets for the five business days immediately preceding the date of grant.

(g) Granting options to a director, chief executive or substantial shareholder of our Company or any of their respective associates

Any grant of options to a director, chief executive or substantial shareholder (as defined in the Listing Rules) of our Company or any of their respective associates (as defined in the Listing Rules) is required to be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the options).

If the Board proposes to grant options to a substantial shareholder or any independent non-executive Director (or any of their respective associates (as defined in the Listing Rules)) which will result in the number of Shares issued and to be issued in respect of all options and awards granted to such person under the Share Option Scheme or the other share schemes of our Company (excluding any options and awards lapsed in accordance with the terms of such schemes) in the 12-month period up to and including the date of such grant, such further grant of options will be subject to, in addition to the abovementioned approval of the independent non-executive Directors, the approval of our Shareholders in general meeting in accordance with Rule 17.04(4) of the Listing Rules

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and/or such other requirements prescribed under the Listing Rules from time to time. Our Company must also send a circular to our Shareholders, which shall contain the following information:

- (i) the details of the number and terms (including the information required under Rules 17.03(5) to 17.03(10) and Rule 17.03(19) of the Listing Rules) of the options to be granted to each selected Eligible Participant, which must be fixed before our Shareholders’ meeting, and the date of grant (which shall be the date of the Board meeting at which our Board proposes to grant the proposed options to that Eligible Participant);
- (ii) the views of the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the options) as to whether the terms of the grant are fair and reasonable and whether such grant is in the interests of our Company and our Shareholders as a whole, and their recommendation to the independent Shareholders as to voting;
- (iii) the information required under Rule 17.02(2)(c) 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

A grant of options shall not be made after inside information has come to the knowledge of our Company until it has announced such inside information pursuant to the requirements of the Listing Rules and the Inside Information Provisions of Part XIVA of the SFO. In particular, no options shall be granted during the period commencing one month immediately preceding the earlier of:

- (i) the date of the Board meeting (as such date to first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company’s annual results or half-year, or quarterly or other interim period (whether or not required under the Listing Rules);
- (ii) the deadline for our Company to publish an announcement of its annual results or half-year, or quarterly or other interim period (whether or not required under the Listing Rules), and ending on the date of actual publication of the results announcement,

and where an option is granted to a Director:

- (iii) no options shall be granted during the period of 60 days immediately preceding the publication date of the annual results or, if shorter, the period from the end of the relevant financial year up to the publication date of the results; and
- (iv) during the period of 30 days immediately preceding the publication date of the quarterly results (if any) and half-year results or, if shorter, the period from the end of the relevant quarterly or half-year period up to the publication date of the results.

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(i) Rights are personal to grantee

Save for a transfer to a vehicle (such as a trust or a private company) for the benefit of the grantee and any family members of such grantee (including for estate planning or tax planning purposes) that would continue to meet the purpose of the Share Option Scheme and comply with other requirements of the Listing Rules, in which case a waiver must be obtained from the Stock Exchange, an option and an offer to grant an option shall be personal to the grantee and shall not be transferrable or assignable and no grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest (legal or beneficial) in favor of any third party over or in relation to any option or attempt so to do (save that the grantee may nominate a nominee in whose name our 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 the Board in its absolute discretion, save 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 date of approval of the Share Option Scheme. Subject to earlier termination by our Company in general meeting or by the Board, the Share Option Scheme shall be valid and effective for a period of 10 years from the date of its adoption (the “**Scheme Period**”).

(k) Performance target

A grantee may be required to achieve any performance targets as the Board may then specify in the grant before any options granted under the Share Option Scheme can be exercised. The performance targets shall be assessed in accordance with any one or more of the following corporate-wide or subsidiary, division, operating unit, line of business, project, geographical or individual performance measures (the “**Performance Measures**”) during a specified performance period: cash flow; earnings; earnings per share; market value added or economic value added; profits; return on assets; return on equity; return on investment; sales; revenue; Share price; total shareholder return; customer satisfaction metrics; and such other goals as our Board may determine from time to time. Each goal may be expressed on an absolute and/or relative basis, may be based on or otherwise employ comparisons based on internal targets, the past performance of our Company and/or the past or current performance of other companies, and in the case of earnings-based measures, may use or employ comparisons relating to capital, shareholders’ equity and/or shares outstanding, investments or to assets or net assets. Our Board may, in its sole discretion, amend or adjust the Performance Measures and establish any special rules and conditions to which the Performance Measures shall be subject at any time.

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(l) Rights on ceasing employment or death

If the grantee of an option ceases to be an employee of our Company or any of its subsidiaries

- (i) by any reason other than death or termination of his employment on the grounds specified in paragraph (m) below, the grantee may exercise the option up to the entitlement of the grantee as at the date of cessation (to the extent not already exercised) within a period of one month from such cessation; or
- (ii) by reason of death, his/her personal representative(s) may exercise the option within a period of 12 months from such cessation, which date shall be the last actual working day with our Company or the relevant subsidiary whether salary is paid in lieu of notice or not, failing which it will lapse.

(m) Rights on dismissal

If the grantee of an option ceases to be an employee of our Company or any of its subsidiaries on the grounds that he/she has been guilty of serious misconduct, or has been convicted of any criminal offense involving his/her integrity or honesty or in relation to an employee of our Group (if so determined by the Board), or has become insolvent, bankrupt or has made arrangements or compositions with his/her creditors generally, or on any other ground on which an employee would be entitled to terminate his/her employment at common law or pursuant to any applicable laws or under the grantee's service contract with our Group, his/her option will lapse and not be exercisable after the date of termination of his/her 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 Codes)) 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 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/her legal personal representative(s)) shall be entitled to exercise all or any of his/her 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 subscription price for our 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 and register the grantee as holder thereof.

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(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 pursuant to the laws of jurisdictions in which our Company was incorporated, 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 or creditors summoning the meeting to consider such a compromise or arrangement and any grantee may by notice in writing to our Company accompanied by a remittance for the full amount of the aggregate subscription price for our Shares in respect of which the notice is given (such notice to be received by our Company not later than two business days prior to the proposed meeting), exercise the option to its full extent or to the extent specified in the notice and our Company shall as soon as possible and in any event no later than 12:00 noon (Hong Kong time) on the business day immediately prior to the date of the proposed meeting, allot and issue such number of Shares to the grantee which falls to be issued on such exercise of the option credited as fully paid and register the grantee as holder thereof.

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 and shall become exercisable.

(q) Ranking of Shares

Our Shares to be allotted upon the exercise of an option will not carry voting, dividend or other rights until completion of the registration of the grantee (or any other person) as the holder thereof. Subject to the aforesaid, Shares to be allotted and issued upon the exercise of options will carry the same rights in all respects and shall have the same voting, dividend, transfer and other rights, including those arising on liquidation as attached to the other fully-paid Shares in issue on the date of issue and rights in respect of any dividend or other distributions paid or made on or after the date of issue.

(r) Effect of alterations to capital

In the event of any alteration in the capital structure of our Company whilst any option may become or remains exercisable, whether by way of capitalization issue, rights issue, consolidation, sub-division or reduction of share capital of our Company, or otherwise howsoever, such corresponding alterations (if any) shall be made in the number of Shares subject to any outstanding options and/or the subscription price per Share of each outstanding option as the auditors of our Company or an approved independent financial adviser shall at the request of our Company or any grantee, certify in writing either generally or as regards any particular grantee to be in their opinion fair and reasonable, provided that any such alterations shall 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 issued by the Stock Exchange on November 6, 2020 and any further guidance and interpretation of the Listing Rules issued by the Stock Exchange from time to time and/or such other requirement prescribed under the

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Listing Rules from time to time), rounded to the nearest whole Share, as that to which he/she was entitled to subscribe had he/she exercised all the options held by him/her immediately before such adjustments and the aggregate exercise price payable by a grantee on the full exercise of any option shall remain as nearly as possible the same as (but shall not be greater than) it was before such event and that no such alterations shall be made if the effect of such alterations 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. 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 absence of manifest error, be final and conclusive and binding on our Company and the grantees.

(s) Expiry of option

An option shall lapse automatically and 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 the Board;
- (ii) the expiry of any of the periods referred to in paragraphs (l), (m), (n), (o) or (p);
- (iii) the date on 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 on which the grantee ceases to be an Eligible Participant by reason of such grantee’s resignation from the employment of our Company or any of its subsidiaries or the termination of his/her employment or contract on any one or more of the grounds that he or he/she has been guilty of serious misconduct, or has been convicted of any criminal offense involving his/her integrity or honesty, or in relation to an employee of our Group (if so determined by the Board), or has been insolvent, bankrupt or has made compositions with his/her creditors generally or any other ground on which an employee would be entitled to terminate his/her employment at common law or pursuant to any applicable laws or under the grantee’s service contract with our Group. A resolution of the Board to the effect that the employment of a grantee has or has not been terminated on one or more of the ground specified in this paragraph shall be conclusive; or
- (vi) the date on which the Board shall exercise our Company’s right to cancel the option at any time after the grantee commits a breach of paragraph (i) above the options are canceled in accordance with paragraph (u) below.

Save as provided above in this paragraph (s), no options or shares issued upon the exercise of any options under the Share Option Scheme are subject to any clawback mechanism.

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(t) Alteration of the Share Option Scheme

The Share Option Scheme may be altered in any respect by resolution of the Board except that:

- (i) any change to the terms of options granted to a grantee must be approved by our Board, the Remuneration Committee, the independent non-executive Directors and/or our Shareholders (as the case may be) if the initial grant of the options was approved by our Board, the Remuneration Committee, the independent non-executive Directors and/or our Shareholders (as the case may be) (except any changes which take effect automatically under the terms of the Share Option Scheme); and
- (ii) any alterations to the terms and conditions of the Share Option Scheme which are of a material nature or any alterations to the provisions relating to the matters set out in Rule 17.03 of the Listing Rules to the advantage of the Eligible Participants or any change to the authority of the Directors or the administrators of the Share Option Scheme to alter the terms of the Share Option Scheme must be approved by our Shareholders in general meeting.

The amended terms of the Share Option Scheme shall still comply with Chapter 17 of the Listing Rules.

(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 any Option is canceled pursuant to paragraph (i).

(v) Termination of the Share Option Scheme

Our Company may by resolution in general meeting or the Board 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 the Board

The Share Option Scheme shall be subject to the administration of the Board whose decision as to all matters arising in relation to the Share Option Scheme or its interpretation or effect (save as otherwise provided herein) shall be final and binding on all parties.

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(x) Condition of the Share Option Scheme

The Share Option Scheme is conditional on:

- (i) the passing of the necessary resolutions by our Shareholders to approve and adopt the rules of the Share Option Scheme;
- (ii) the Stock Exchange granting the [REDACTED] of and [REDACTED] to [REDACTED] our Shares which may fall to be issued pursuant to the exercise of options to be granted under the Share Option Scheme;
- (iii) the obligations of the [REDACTED] under the [REDACTED] becoming unconditional (including, if relevant, as a result of the waiver(s) or modification(s) of any such condition(s) by the [REDACTED] (for itself and on behalf of the [REDACTED])) and not being terminated in accordance with the terms of the [REDACTED] or otherwise; and
- (iv) the commencement of [REDACTED] in our Shares on the Stock Exchange.

If the conditions in paragraph (x) above are not satisfied within 12 calendar months from the Adoption Date:

- (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, vesting period and other information as prescribed under the Listing Rules from time to time during the financial year/period in the annual/interim reports in accordance with the Listing Rules in force from time to time.

(z) Present status of the Share Option Scheme

As at the Latest Practicable Date, no option had been granted or agreed to be granted under the Share Option Scheme.

Application has been made to the Stock Exchange for the [REDACTED] of and [REDACTED] to [REDACTED] our Shares which may fall to be issued pursuant to the exercise of the options to be granted under the Share Option Scheme, being [REDACTED] Shares in total.

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2. Estate Duty and Tax Indemnity

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of our subsidiaries.

Our Largest Shareholder has entered into the Deed of Indemnity with and in favour of our Company (for itself and as trustee for its subsidiaries) (being the contract referred to in paragraph (kk) of “B. Further information about our business — 1. Summary of material contracts” in this appendix) to provide indemnities in respect of corporate income taxes, withholding taxes, value added taxes (or similar) and any other relevant taxes in Taiwan, Japan, South Korea, Vietnam, United States and Thailand which any member of our Group may be subject and payable on or before the date when the [REDACTED] becomes unconditional. Please refer to “Business — Other Taxation Matters” in this document for further details on our overseas tax exposure.

3. Litigation

As of the Latest Practicable Date, no member of our Group was engaged in any litigation or arbitration of material importance and, so far as our Directors are aware, no litigation or claim of material importance is pending or threatened against any member of our Group.

4. Sole Sponsor

The Sole Sponsor satisfies the independence criteria applicable to sponsor set out in Rule 3A.07 of the Listing Rules. The Sole Sponsor’s fee is approximately HK\$[REDACTED] and are payable by our Company.

The Sole Sponsor has made an application on our Company’s behalf to the Stock Exchange for the [REDACTED] of, and permission to [REDACTED], all the Shares in issue and to be issued as mentioned in this document. All necessary arrangements have been made for the Shares to be admitted into CCASS.

5. Preliminary expenses

The preliminary expenses of our Company are estimated to be approximately US\$2,550 and are payable by our Company.

6. No material adverse change

Saved as disclosed in this document, our Directors confirm that there has been no material adverse change in our Group’s financial or trading position since June 30, 2022 (being the date on which the latest consolidated financial information of our Group was prepared).

7. Promoters

Our Company has no promoter for the purpose of the Listing Rules. Within the two years immediately preceding the date of this document, no cash, securities or other benefit has been paid, allotted or given nor are any proposed to be paid, allotted or given to any promoters in connection with the [REDACTED] and the related transactions described in this document.

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8. Taxation of holders of Shares

(a) *Hong Kong*

The sale, purchase and transfer of Shares registered with our Company’s Hong Kong branch register of members will be subject to Hong Kong stamp duty, the current rate charged on each of the purchaser and seller is 0.13% of the consideration or, if higher, the fair value of the Shares being sold or transferred. Profits from [REDACTED] the Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

(b) *Cayman Islands*

Under the present Cayman Islands law, there is no stamp duty payable in the Cayman Islands on transfer of Shares.

(c) *Consultation with professional advisers*

Intending holders of the Shares are recommended to consult their professional advisers if they are in doubt as to the taxation implications of holding or disposing of or [REDACTED] Shares. It is emphasized that none of our Company, our Directors or the other parties involved in the [REDACTED] can accept responsibility for any tax effect on, or liabilities of, holders of Shares resulting from their holding or disposal of or dealing in Shares or exercise of any rights attaching to them.

9. Qualification of experts

The qualifications of the experts who have given opinion and/or whose names are included in this document are as follows:

Name	Qualifications
UOB Kay Hian (Hong Kong) Limited	Licensed under the SFO and permitted to conduct Type 1 (Dealing in securities), Type 4 (Advising on securities) and Type 6 (Advising on corporate finance) of the regulated activities as defined under the SFO
PricewaterhouseCoopers	Certified Public Accountants under the Professional Accountant Ordinance (Chapter 50 of the Laws of Hong Kong) Registered Public Interest Entity Auditor under Accounting and Financial Reporting Council Ordinance (Chapter 588 of the Laws of Hong Kong)
Maples and Calder (Hong Kong) LLP	Legal advisers to our Company as to Cayman Islands laws
Han Kun Law Offices	Legal advisers to our Company as to PRC laws
Hogan Lovells	Legal advisers to our Company as to International Sanctions laws

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Name	Qualifications
Frost & Sullivan (Beijing) Inc. Shanghai Branch Co.	Independent industry consultant
PricewaterhouseCoopers Limited	Independent transfer pricing consultant

10. Consents of experts

Each of the experts named in paragraph 9 of this Appendix has given and has not withdrawn its written consent to the issue of this document with the inclusion of its reports, letters, opinions, summaries of opinions and/or references to its names included herein in the form and context in which they respectively appear.

11. Interests of experts in our Company

None of the persons named in paragraph 9 of this Appendix is interested beneficially or otherwise in any Shares or shares of any member of our Group or has any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any shares or securities in any member of our Group.

12. Binding effect

This document shall have the effect, if an application is made in pursuance hereof, 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 insofar applicable.

13. Miscellaneous

- (a) Save as disclosed in this document, within the two years immediately preceding the date of this document:
 - (i) no share or loan capital of our Company or any of our subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;
 - (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) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any capital of our Company or any of our subsidiaries; and
 - (iv) no commission has been paid or payable subscribing, agreeing to subscribe or procuring subscription or agreeing to procure subscription for any shares in our Company or any of our subsidiaries;
- (b) no founder, management or deferred shares of our Company or any of our subsidiaries have been issued or agreed to be issued;

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- (c) there has not been any interruption in our business which may have or have had a significant effect on our financial position in the 12 months immediately preceding the date of this document;
- (d) the principal register of members of our Company will be maintained in the Cayman Islands by the Principal Share Registrar and a branch register of members of our Company will be maintained in Hong Kong by the Hong Kong Share Registrar. Unless our Directors otherwise agree, all transfer and other documents of title of Shares must be lodged for registration with and registered by our Company’s share register in Hong Kong and may not be lodged in the Cayman Islands. All necessary arrangements have been made to enable the Shares to be admitted to CCASS;
- (e) no company within our Group is presently listed on any stock exchange or traded on any trading system;
- (f) our Directors have been advised that under Companies Act the use of a Chinese name by our Company does not contravene the Companies Act;
- (g) save for the Pre-[REDACTED] Convertible Bonds, our Company has no outstanding convertible debt securities or debentures;
- (h) there is no arrangement under which future dividend are waived or agreed to be waived; and
- (i) there is no restriction affecting the remittance of profits or repatriation of capital into Hong Kong and from outside Hong Kong.

14. Bilingual document

The English language and Chinese language versions of this document are being published separately in reliance upon the exemption provided in section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong). In case of any discrepancies between the English language version and Chinese language version of this Document, the English language version shall prevail.

APPENDIX V **DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES AND DOCUMENTS ON DISPLAY**

A. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this document delivered to the Registrar of Companies in Hong Kong for registration were:

- (a) a copy of the [REDACTED];
- (b) the written consents referred to in the section headed “D. Other Information — 10. Consents of Experts” in Appendix IV to this document; and
- (c) a copy of each of the material contracts referred to in the section headed “B. Information about Our Business — 1. Summary of Material Contracts” in Appendix IV to this document.

B. DOCUMENTS ON DISPLAY

Copies of the following documents will be on display on the website of the Stock Exchange at www.hkexnews.hk and our website at www.galasports.com during a period of 14 days from the date of this document:

- (a) the Memorandum and Articles of Association;
- (b) the Accountant’s Report of the Group for the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022 from PricewaterhouseCoopers, the text of which is set out in Appendix I to this document;
- (c) the report from PricewaterhouseCoopers in respect of the unaudited pro forma financial information, the text of which is set out in Appendix II to this document;
- (d) the audited consolidated financial statements of our Group for the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022;
- (e) the legal opinion issued by Han Kun Law Offices, our legal advisers as to PRC law in respect of our Group’s business operations and property interests in the PRC;
- (f) the letter of advice from Maples and Calder (Hong Kong) LLP, our legal advisers as to Cayman Islands law, summarizing certain aspects of the Companies Act referred to the section headed “Summary of our Constitution and Cayman Companies Act” in Appendix III to this document;
- (g) the legal memorandum prepared by Hogan Lovells, our legal advisers as to International Sanctions laws;
- (h) the industry report issued by Frost & Sullivan (Beijing) Inc. Shanghai Branch Co.;
- (i) the Companies Act;
- (j) the material contracts referred to in the section headed “B. Further information about our Business — 1. Summary of material contracts” in Appendix IV to this document;

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**DOCUMENTS DELIVERED TO THE REGISTRAR OF
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- (k) the service agreements and letters of appointment entered into between our Company and each of our Directors referred to in the section headed “C. Further Information about our Directors and Substantial Shareholders — 1. Directors — (b) Particulars of service agreements and letters of appointment” in Appendix IV to this document;
- (l) the written consents referred to in the section headed “D. Other Information — 10. Consents of Experts” in Appendix IV to this document; and
- (m) the rules of the Share Option Scheme.