

CONTRACTUAL ARRANGEMENTS

OVERVIEW

Foreign investment activities in the PRC are mainly governed by (i) the Encouraged Industry Catalog for Foreign Investment (2022 Version) (《鼓勵外商投資產業目錄(2022年版)》), which was jointly promulgated by the MOFCOM and the NDRC on October 26, 2022 and took effect from January 1, 2023 (the “**Catalog**”); and (ii) the Special Administrative Measures on Access of Foreign Investment (Negative List) (2021 Version) (《外商投資准入特別管理措施(負面清單)(2021年版)》), which was jointly promulgated by the MOFCOM and the NDRC on December 27, 2021 and took effect from January 1, 2022 (the “**Negative List**”). The Negative List stipulates industries in which foreign investment is restricted or prohibited.

Since our establishment and up to the Latest Practicable Date, we generated our revenue primarily from online game operation (the “**Relevant Business**”). For further details, see “Business — Our Online Game Publishing Business and Other Marketing Business”.

As advised by our PRC Legal Adviser, the Relevant Business falls within the scope of:

- (i) “*internet cultural business*” under the Provisional Regulations for the Administration of Internet Culture (《互聯網文化管理暫行規定》) (“**Internet Culture Measures**”). Pursuant 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. According to the Negative List, foreign investors are prohibited from holding equity interests in any enterprise engaging in internet cultural business; and
- (ii) “*value-added telecommunication services (“VATS”) business*” under the Catalog of Telecommunications Business (《電信業務分類目錄》) and the Administrative Measures on Internet Information Services (《互聯網信息服務管理辦法》), which is classified as a foreign investment restricted business according to the Negative List, and companies providing VATS shall not be held by foreign investors as to more than 50% of their equity interests. Companies providing Relevant Business shall obtain the “Value-added Telecommunications Operation License (within the business scope of internet content provider)” (the “**ICP License**”).

We believe that our internet cultural business and VATS business are fundamental components and inseparable parts of the Relevant Business because (i) as advised by our PRC Legal Adviser, operation of games through internet, according to the Internet Culture Measures, falls within the scope of “internet cultural activity” where foreign ownership is prohibited pursuant to the Negative List; and (ii) the VATS provided by the Group, along with the internet cultural business, which involves the operation of online games, forms an integral part of our game services. In addition, pursuant to applicable PRC laws and regulations, domestic telecommunication enterprises are prohibited from leasing, transferring or selling their licenses to foreign investors in any form and based on the above analysis, each PRC Operating Entity must hold an ICP License to operate its Relevant Business. Accordingly, for the purpose of operating the online games in compliance with applicable PRC laws and regulations, it is

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impractical for the Company to separate internet cultural business and VATS business from its game operation business and to hold the ICP License in a separate entity from our PRC Operating Entities.

On March 29, 2022, the State Council promulgated 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 came into effect on May 1, 2022. According to the Decision, the requirement of demonstrating a good track record and experience in operating VATS business of the primary foreign investor in a foreign invested VATS enterprise was removed. However, as advised by our PRC Legal Adviser, as the Decision only became effective on May 1, 2022, and there was no detailed guidance or implementation measures, there remain uncertainties with respect to the impact of the Decision on us.

The Company’s PRC Legal Adviser conducted verbal consultation with the MIIT through the MIIT’s official enquiry line (12381) on March 3, 2023. The officers of MIIT who accepted such consultation confirmed that the PRC Operating Entities are not likely to obtain ICP License in the format of sino-foreign equity joint venture, in which the Company, as a foreign investor, holds any equity interest because the Relevant Business falls within “prohibited business” under the Negative List. The Company’s PRC Legal Adviser is of the view that MIIT is the competent authority to review the application of the ICP License of foreign invested enterprises, the official enquiry line (12381) is an appropriate channel to seek consultation with MIIT as a public service telephone platform published on the official website of MIIT, which is mainly responsible for the disclosure of government information, accepting and handling the public’s inquiries, suggestions and complaints on the relevant work of MIIT, and the relevant officers accepting such verbal consultation through official enquiry line are authorized to provide such consulting responses.

For further details of the limitations on foreign ownership in PRC companies conducting businesses involving internet cultural business and VATS business under the applicable PRC laws and regulations, see “Regulatory Overview.”

Given that our PRC Operating Entities operate the foreign-prohibited business and foreign-restricted business, our Company would not be currently allowed to hold any equity interests in the PRC Operating Entities. Based on this and the advice of our PRC Legal Adviser 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.

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Since the Relevant Business involves the operation of online games, which falls within the scope of internet cultural business and VATS business, the Relevant Business is subject to foreign

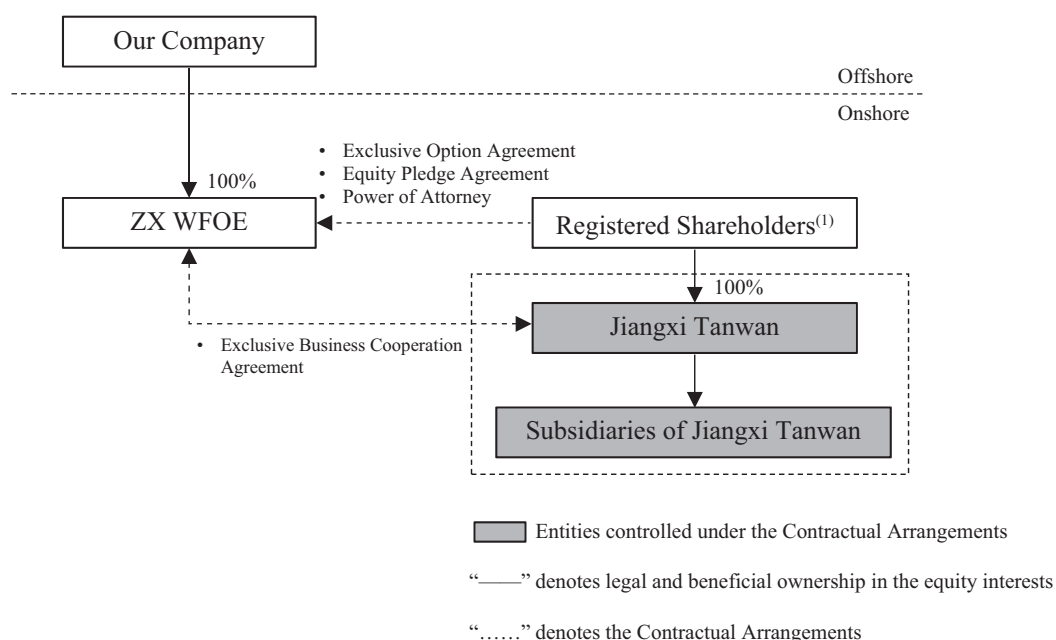
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ownership restrictions. Hence, it is not viable for our Company to conduct the Relevant Business directly through equity ownership. In line with common practice and in order to conduct the Relevant Business in the PRC, our Company, through ZX WFOE, entered into the Contractual Arrangements with Jiangxi Tanwan and its Registered Shareholders, pursuant to which our Company has acquired effective control over the Relevant Business through the PRC Operating Entities, and become entitled to all the economic benefits derived from the PRC Operating Entities. Accordingly, the results of operations and assets and liabilities of the PRC Operating Entities can be consolidated into our results of operations and assets and liabilities as if they are the subsidiaries of our Company.

Our Directors believe that the Contractual Arrangements are fair and reasonable because (i) the Contractual Arrangements were negotiated on an arm’s length basis and entered into between ZX WFOE, Jiangxi Tanwan and the Registered Shareholders; (ii) by entering into the Exclusive Business Cooperation Agreements with ZX WFOE, which is our Company’s subsidiary incorporated in the PRC, our PRC Operating Entities will enjoy better economic and technical support from ZX WFOE, 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.

For the three years ended December 31, 2022 and the four months ended April 30, 2023, revenue generated from our PRC Operating Entities accounted for approximately 100.0%, 99.5%, 95.8% and 96.4% of our total revenue, respectively, according to our unaudited management accounts.

The following simplified diagram illustrates the Contractual Arrangements:



Note:

(1) For further details of the shareholding of Jiangxi Tanwan, see “History, Reorganization and Corporate Structure — Major Corporate Development and Shareholding Changes — Our Major PRC Operating Entities — (i) Jiangxi Tanwan”.

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Exclusive Business Cooperation Agreement

On November 22, 2022, Jiangxi Tanwan entered into an exclusive business cooperation agreement with ZX WFOE which was amended and restated by an exclusive business cooperation agreement dated April 18, 2023 (the “**Exclusive Business Cooperation Agreement**”), pursuant to which ZX WFOE has agreed to be engaged as the exclusive provider to Jiangxi Tanwan of business support, technical and consulting services, including technology services, network support and maintenance, research and development, business and management consultancy, intellectual property licensing, equipment leasing, market research and other services, in exchange for service fees which shall consist of 100% of the total consolidated profits of Jiangxi Tanwan after offsetting the prior-year loss (if any), operating costs, expenses, taxes and other statutory contributions. ZX WFOE has the right to at any time adjust the service fee to be charged and its payment schedule according to the quantity and content of the services it provides to Jiangxi Tanwan. When assessing the commercial value of services provided by ZX WFOE, Jiangxi Tanwan will take into account factors such as (i) the complexity and difficulty of the services involved; (ii) the time taken for the services; (iii) the scope of the services and their corresponding commercial value; (iv) comparable service fees charged to third party customers of ZX WFOE and the market reference price for services of similar kinds; and (v) the operational needs of Jiangxi Tanwan.

Pursuant to the Exclusive Business Cooperation Agreement, without the prior written consent from ZX WFOE, Jiangxi Tanwan shall not, during the term of the Exclusive Business Cooperation Agreement, accept the same or any similar services provided by any third party which are covered by the Exclusive Business Cooperation Agreement nor shall Jiangxi Tanwan establish cooperation relationships similar to those established by the Exclusive Business Cooperation Agreement with any third party.

Pursuant to the Exclusive Business Cooperation Agreement, ZX WFOE has the exclusive and proprietary rights to all intellectual properties developed by Jiangxi Tanwan, given ZX WFOE provides consulting services to Jiangxi Tanwan. Jiangxi Tanwan is required under the Contractual Arrangements to obtain ZX WFOE’s prior written consent before it transfers, assigns or disposes of any of its intellectual properties to any third party.

The Exclusive Business Cooperation Agreement shall remain effective unless (i) when Jiangxi Tanwan ceases to operate any business, becomes insolvency, bankruptcy or subject to liquidation or dissolution procedures; (ii) the entire equity interests held by the Registered Shareholders in Jiangxi Tanwan or the entire assets held by Jiangxi Tanwan have been transferred to ZX WFOE or its designee; (iii) terminated in writing by ZX WFOE thirty (30) days in advance; or (iv) when it is legally permissible for ZX WFOE to hold equity interests directly or indirectly in Jiangxi Tanwan and ZX WFOE or its appointee(s) is registered to be the shareholder of Jiangxi Tanwan. Jiangxi Tanwan is not contractually entitled to unilaterally terminate the Exclusive Cooperation Agreement with ZX WFOE.

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Exclusive Option Agreement

On November 22, 2022, ZX WFOE, Jiangxi Tanwan and the Registered Shareholders entered into an exclusive option agreement which was amended and restated by an exclusive option agreement dated April 18, 2023 (the “**Exclusive Option Agreement**”), pursuant to which ZX WFOE (or its designee) has an irrevocable and exclusive right to purchase from the Registered Shareholders all or any part of their equity interests in Jiangxi Tanwan, and an irrevocable and exclusive right to purchase from Jiangxi Tanwan all or any part of its assets at a minimal price required by the relevant government authorities or PRC laws. To the extent permitted by applicable PRC laws and regulations, the Registered Shareholders and/or Jiangxi Tanwan shall return the amount of purchase price they have received in full to ZX WFOE. At ZX WFOE’s request, the Registered Shareholders and/or Jiangxi Tanwan will promptly and unconditionally transfer their respective equity interests and/or assets to ZX WFOE (or its designee) after ZX WFOE exercises its option.

During the terms of the Exclusive Option Agreement, none of the assets of Jiangxi Tanwan shall be sold, transferred, pledged or otherwise disposed of without the prior written consent of ZX WFOE. In addition, Jiangxi Tanwan is not allowed to make any distributions to the Registered Shareholders without the prior written consent of ZX WFOE. In the event that the Registered Shareholders receive any profit distribution or dividend from Jiangxi Tanwan, the Registered Shareholders must immediately pay or transfer such amount to ZX WFOE (or its designee). If ZX WFOE exercises this option, all or any part of the equity interests of Jiangxi Tanwan acquired would be transferred to ZX WFOE and the benefits of equity ownership would flow to our Company and our Shareholders.

The Exclusive Option Agreement will not be terminated until the purchased equity interests and/or the acquired assets have been transferred to ZX WFOE (or its designee) in accordance with the Exclusive Option Agreement. However, ZX WFOE has the right to unilaterally and unconditionally terminate the Exclusive Option Agreement at any time in written notice. Subject to applicable PRC laws, Jiangxi Tanwan and the Registered Shareholders do not have the right to unilaterally terminate this agreement.

Equity Pledge Agreement

On November 22, 2022, Jiangxi Tanwan, the Registered Shareholders and ZX WFOE entered into an equity pledge agreement which was amended and restated by an equity pledge agreement dated April 18, 2023 (the “**Equity Pledge Agreement**”), pursuant to which the Registered Shareholders agreed to pledge all of their equity interests (including the dividends arising from such equity interests) in Jiangxi Tanwan to ZX WFOE as collateral security for all of its payments due to ZX WFOE and to secure performance of all obligations of Jiangxi Tanwan and the Registered Shareholders under the Contractual Arrangements. Should an event of default (as provided in the Equity Pledge Agreement) occur, unless it is successfully resolved to ZX WFOE’s satisfaction within thirty (30) days upon being notified by ZX WFOE, ZX WFOE may demand that the Registered Shareholders and/or Jiangxi Tanwan immediately pay all outstanding payments due under the Contractual Arrangements, repay any loans and make all other payments due to ZX WFOE, and/or dispose of the pledged equity interests and use the proceeds to repay any outstanding payments due to ZX WFOE.

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The Equity Pledge Agreement will not terminate until (i) all obligations of Jiangxi Tanwan and the Registered Shareholders under the Contractual Arrangements are satisfied in full; (ii) ZX WFOE (or its designee) exercises its exclusive options to purchase the entire equity interests of the Registered Shareholders and/or the entire assets of Jiangxi Tanwan pursuant to the terms of the Exclusive Option Agreement when it is permitted to do so under the applicable PRC laws and ZX WFOE (or its designee) may conduct the business of Jiangxi Tanwan; (iii) ZX WFOE exercises its unilateral and unconditional right of termination; or (iv) the agreement is required to be terminated in accordance with applicable PRC laws and regulations.

The pledges under the Equity Pledge Agreement will be duly registered with the relevant PRC authority pursuant to PRC laws and regulations prior to the [REDACTED].

Power of Attorney

On November 22, 2022, an irrevocable power of attorney was entered into by and among the Registered Shareholders, ZX WFOE and Jiangxi Tanwan which was amended and restated by a power of attorney dated April 18, 2023 (the “**Power of Attorney**”), pursuant to which the Registered Shareholders appointed ZX WFOE, or any director of our Company or other person designated by it (excluding any person who may give rise to conflicts of interest), as its exclusive agent and attorney to act on its behalf to exercise all of its rights as registered shareholders of Jiangxi Tanwan. These rights include (i) the right to propose, convene and attend shareholders’ meetings; (ii) the right to sell, transfer, pledge or dispose of equity interests; (iii) the right to exercise shareholders’ voting rights; and (iv) the right to appoint the directors and other senior management members of Jiangxi Tanwan. The authorized person is entitled to sign minutes, file documents with the relevant authorities and exercise voting rights on the winding up of Jiangxi Tanwan on behalf of the Registered Shareholders. The Registered Shareholders have undertaken to transfer all assets obtained after the winding up of Jiangxi Tanwan to ZX WFOE at nil consideration or the lowest price allowed under the then applicable PRC laws and regulations. As a result of the Power of Attorney, our Company, through ZX WFOE, is able to exercise management control over the activities that most significantly impact the economic performance of Jiangxi Tanwan.

The Power of Attorney also provides that, in order to avoid potential conflicts of interest, where the officers or directors of the Registered Shareholders are officers or directors of our Company, the power of attorney is granted to officers or directors of our Company other than those who are officers or directors of the Registered Shareholders. The Power of Attorney shall automatically terminate when (i) Jiangxi Tanwan ceases to operate any business, becomes insolvency, bankruptcy or subject to liquidation or dissolution procedures; (ii) when it is legally permissible for ZX WFOE to hold equity interests directly or indirectly in Jiangxi Tanwan and ZX WFOE or its appointee(s) is registered to be the shareholder of Jiangxi Tanwan; (iii) the entire equity interests held by the Registered Shareholders in Jiangxi Tanwan or the entire assets held by Jiangxi Tanwan have been transferred to ZX WFOE or its appointee(s); (iv) the shareholder structure of the Registered Shareholders changes and the Power of Attorney is replaced by a new power of attorney; or (v) terminated in writing by ZX WFOE thirty (30) days in advance.

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Spouse undertakings

On November 22, 2022, the spouse of each of the individual Registered Shareholders (where applicable) executed an irrevocable undertaking which was amended and restated by an undertaking dated April 18, 2023, pursuant to which he/she expressly acknowledged and undertook that, among others, (i) he/she will not, on the basis of joint marital property rights, make any hindrance to any disposition the respective Registered Shareholder make under the Contractual Arrangements and make any claim against such disposition (including, without limitation, bringing an action or arbitration in any court or arbitral tribunal of competent jurisdiction under any applicable law); and (ii) he/she will not take any measures that are in conflict with the Contractual Arrangements.

The spouse of each of the individual Registered Shareholders (where applicable) further undertook that should he/she by any reason hold any equity interests in Jiangxi Tanwan, they will be bound by, as amended from time to time, the Exclusive Business Cooperation Agreement, the Exclusive Option Agreement, the Equity Pledge Agreement and the Power of Attorney. He/she undertook to comply with the obligations of Jiangxi Tanwan’s shareholders as set out in the aforementioned agreements, and for this purpose, to execute agreements on substantially similar terms as the aforementioned agreements upon ZX WFOE’s request.

Dispute resolution

Each of the agreements under the Contractual Arrangements stipulates that the parties shall negotiate in good faith to resolve the dispute in the event of any dispute with respect to the construction and performance of the provisions. In the event the parties fail to reach an agreement on the resolution of such a dispute within thirty (30) days after any party’s request for resolution of the dispute through negotiations, any party may submit the relevant dispute to the Guangzhou Arbitration Commission for arbitration, in accordance with the then effective arbitration rules. The arbitration shall be conducted in Guangzhou, and the language used during arbitration shall be Chinese. The arbitration ruling shall be final and binding on all parties. Any party shall have the right to apply to the courts with competent jurisdiction for enforcement of arbitration rulings after the arbitration rulings come into force.

Each of the agreements under Contractual Arrangements also provides that the arbitral tribunal may award remedies over the equity interests, property interests or other assets of Jiangxi Tanwan, injunctive relief (e.g. to limit the conduct of business or to compel the transfer of assets) or order the winding up of Jiangxi Tanwan; and the courts of Hong Kong, the Cayman Islands (being the place of incorporation of our Company) and other jurisdiction where the principal assets of Jiangxi Tanwan are located also have jurisdiction for the grant and/or enforcement of the arbitral award and the interim remedies against the equity interests, property interests or other assets of Jiangxi Tanwan.

However, our PRC Legal Adviser has advised that the tribunal normally would not grant such kind of injunctive relief or winding up order of Jiangxi Tanwan under the PRC laws. For instance, the arbitral tribunal has no power to grant such injunctive relief, nor will it be able to order the winding up of Jiangxi Tanwan pursuant to the current PRC laws.

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Succession

Pursuant to the Contractual Arrangements, any successor of the Registered Shareholders shall assume any and all rights and obligations of the Registered Shareholders under the Contractual Arrangements as a result of its liquidation, bankruptcy or under other circumstances which would affect its exercise of equity interests in Jiangxi Tanwan, as if the successor was a signing party to such Contractual Arrangements.

On the basis sets forth below, our PRC Legal Adviser is of the view that, subject to applicable laws and regulations in the PRC, the Contractual Arrangements provide protection to the Group even in the event of liquidation or bankruptcy of the Registered Shareholders, and liquidation or bankruptcy of the Registered Shareholders would not affect the validity of the Contractual Arrangements, and ZX WFOE can enforce its rights under the Contractual Arrangements against the successors of the Registered Shareholders:

- (i) under the Civil Code of the PRC, where the Registered Shareholders are involved in a merger or division subsequent to the entering into the Contractual Arrangements, the legal person or other entity created by the merger or division shall enjoy all rights and perform all obligations under the Contractual Arrangements in principle;
- (ii) according to the Exclusive Option Agreement, the Registered Shareholders have undertaken, in any event which causes the inability of the Registered Shareholders to perform their obligations, to transfer all of the equity interests in Jiangxi Tanwan held by them to an individual or legal entity designated by ZX WFOE under applicable PRC law, which shall, as required by ZX WFOE, continuously obey and perform the Contractual Arrangements;
- (iii) the Contractual Arrangements have also stipulated that (a) the Registered Shareholders shall not dispose of their equity interests in Jiangxi Tanwan without the prior written consent of ZX WFOE; (b) the Registered Shareholders shall not transfer any of their rights or obligations under the Contractual Arrangements for any reason without the written consents of other parties to the Contractual Arrangements, and the Registered Shareholders shall ensure that their successors continue to abide by and perform their rights and obligations under the Contractual Arrangements; and
- (iv) the spouses of each of the individual Registered Shareholders (where applicable) have executed an irrevocable undertaking, details of which have been set out in “— Our Contractual Arrangements — Spouse Undertakings” in this section.

Arrangements to address potential conflicts of interests

The Registered Shareholders have undertaken that during the period that the Contractual Arrangements remain effective:

- (i) unless otherwise agreed by ZX WFOE in writing, the Registered Shareholders would not, directly or indirectly participate, or be interested, or engage in, any business which is or

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may potentially be in competition with the Relevant Business of the PRC Operating Entities where ZX WFOE has the sole absolute discretion to determine whether such conflict arises; and

- (ii) any of their actions or omissions would not lead to any conflict of interest between it and ZX WFOE (including but not limited to its shareholders). Furthermore, in the event of the occurrence of a conflict of interests (where ZX WFOE has the sole absolute discretion to determine whether such conflict arises), they agree to take any appropriate actions upon the consents of ZX WFOE or its designee to eliminate such conflicts, failing which ZX WFOE has the right to exercise the option under the Exclusive Option Agreement.

Loss sharing

None of the agreements constituting the Contractual Arrangements provides that our Company or ZX WFOE, is obligated to share the losses of Jiangxi Tanwan, but if Jiangxi Tanwan suffers any losses or material difficulties of business, ZX WFOE may provide financial support as permitted under PRC laws at its discretion to Jiangxi Tanwan under the terms of the Exclusive Business Cooperation Agreement. Further, Jiangxi Tanwan is a limited liability company and shall be solely liable for its own debts and losses with assets and properties owned by it. Under PRC laws and regulations, our Company or ZX WFOE is not expressly required to share the losses of Jiangxi Tanwan or provide financial support to Jiangxi Tanwan. Despite the foregoing, given that the Group conducts the Relevant Business in the PRC through the PRC Operating Entities, which hold the requisite PRC licenses and approvals, and that the PRC Operating Entities’ financial condition and results of operations are consolidated into our financial condition and results of operations under the applicable accounting principles, our Company’s business, financial condition and results of operations would be adversely affected if the PRC Operating Entities suffer losses.

However, as provided in the Exclusive Option Agreement, none of the assets of Jiangxi Tanwan shall be sold, transferred, pledged or otherwise disposed of without the prior written consent of ZX WFOE. In addition, Jiangxi Tanwan is not allowed to make any distributions to the Registered Shareholders without the prior written consent of ZX WFOE. In the event that the Registered Shareholders receive any profit distribution or dividend from Jiangxi Tanwan, the Registered Shareholders must immediately pay or transfer such amount to ZX WFOE (or its designee). Therefore, the potential adverse effect on ZX WFOE and our Company in the event of any loss suffered from Jiangxi Tanwan is limited by the relevant restrictive provisions in the Exclusive Option Agreement.

Liquidation

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

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be paid to ZX WFOE or the qualifying entity designated by ZX WFOE in partial satisfaction of the service fees under the Exclusive Business Cooperation Agreement, as applicable under the then effective laws of the PRC.

Termination

Pursuant to the Contractual Arrangements, ZX WFOE has the unilateral right to terminate the agreements under the Contractual Arrangements at any time by providing written notice to the Registered Shareholders and/or Jiangxi Tanwan. The Contractual Arrangements shall terminate once ZX WFOE holds the entire equity interests in Jiangxi Tanwan and/or the entire assets of Jiangxi Tanwan in the event that ZX WFOE or its subsidiaries are allowed to conduct the Relevant Business directly that Jiangxi Tanwan operates under PRC laws.

Insurance

We do not maintain an insurance policy to cover the risks relating to the Contractual Arrangements. For further details, see “Risk Factors — Risks Relating to Our Business and Industry — We may not have sufficient insurance coverage to cover our business risks”.

Our confirmation

As of the Latest Practicable Date, we had not encountered any interference or encumbrance from any PRC governing bodies in operating the Relevant Business through the PRC Operating Entities under the Contractual Arrangements.

Circumstances under which we will adjust or unwind the Contractual Arrangements

Our Group will adjust or unwind (as the case maybe) the Contractual Arrangements as soon as practicable in respect of the operation of the Relevant Business to the extent permissible and we will directly hold the maximum percentage of ownership interests permissible under relevant PRC laws and regulations.

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INVESTEE ENTITIES HELD BY OUR PRC OPERATING ENTITIES

Apart from the Restricted Business, our PRC Operating Entities also hold minority investments in certain non-consolidated investee companies in the PRC (the “**Investee Entities**”), each of which (i) intends to engage in business which is subject to foreign investment prohibition under the Negative List; or (ii) is engaged in business subject to foreign investment restriction under the Negative List, and we failed to obtain consent from other equity owners for transferring our interests from the relevant PRC Operating Entities to ZX WFOE, our indirect wholly-owned subsidiary. Details of the Investee Entities are summarized in the below table:

| <u>Name of Investee Entity</u> | <u>% of equity interests</u> | <u>Principal business activities</u> |
|--|----------------------------------|---|
| 1. Zhejiang Xuwan Technology Co., Ltd. (“ Zhejiang Xuwan ”) | 40.0% directly by Poyang Tanwan | Technical services and development; plans to engage in online game operation in the near future |
| 2. Fuzhou Zizai Entertainment Network Technology Co., Ltd. (“ Fuzhou Zizai ”) | 28.0% directly by Jiangxi Tanwan | Animation game development; plans to engage in online game operation in the near future |
| 3. Guangzhou Zeda New Cultural and Creative Industry Development Co., Ltd. (“ Guangzhou Zeda ”) | 26.0% directly by Jiangxi Tanwan | Real estate development, management and interactive entertainment product marketing business; plans to engage in online game operation in the near future |
| 4. Guangzhou Ziyun Cloud Computing Co., Ltd. (“ Guangzhou Ziyun ”) | 20.0% directly by Jiangxi Tanwan | Cloud storage business |

Zhejiang Xuwan

As advised by our PRC Legal Adviser, the online game operation business which Zhejiang Xuwan intends to engage in falls within the scope of “internet cultural business”, which is foreign investment prohibited according to the Negative List. Accordingly, Zhejiang Xuwan should be ultimately controlled by PRC nationals and/or PRC corporation entities. Hence, It is not viable for Poyang Tanwan to transfer its 40.0% equity interests in Zhejiang Xuwan to ZX WFOE under the applicable PRC laws and regulations.

Fuzhou Zizai

As advised by our PRC Legal Adviser, the online game operation business which Fuzhou Zizai intends to engage in falls within the scope of “internet cultural business”, which is foreign investment prohibited according to the Negative List. Accordingly, Fuzhou Zizai should be ultimately controlled by PRC nationals and/or PRC corporation entities. Hence, It is not viable

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for Jiangxi Tanwan to transfer its 28.0% equity interests in Fuzhou Zizai to ZX WFOE under the applicable PRC laws and regulations.

Guangzhou Zeda

As advised by our PRC Legal Adviser, the online game operation business of Guangzhou Zeda intends to engage in falls within the scope of “internet cultural business”, which is foreign investment prohibited according to the Negative List. Accordingly, Guangzhou Zeda should be ultimately controlled by PRC nationals and/or PRC corporation entities. Hence, It is not viable for Jiangxi Tanwan to transfer its 26.0% equity interests in Guangzhou Zeda to ZX WFOE under the applicable PRC laws and regulations.

Guangzhou Ziyun

As advised by our PRC Legal Adviser, the cloud storage business of Guangzhou Ziyun falls within the scope of “providing VATS business”, which is foreign investment restricted according to the Negative List, and Guangzhou Ziyun is required to obtain an IDC (internet data center) license, one category under the Value-added Telecommunication Operation License. Guangzhou Ziyun holds an IDC license as of the Latest Practicable Date. Pursuant to the PRC Companies Law and the articles of association of Guangzhou Ziyun, Jiangxi Tanwan requires the consent and/or assistance from other equity owners of Guangzhou Ziyun for the transfer of its 20.0% equity interests to ZX WFOE. The other equity owners of Guangzhou Ziyun have rejected Jiangxi Tanwan’s proposal to transfer its 20.0% equity interests to ZX WFOE, given the uncertainties in renewing the IDC License for Guangzhou Ziyun as a result of such transfer.

Immateriality of the Investee Entities to our financial results and operating status

The Investee Entities are immaterial to our financial results and operating status:

- (i) we invested in the Investee Entities as passive minority investors and are not involved in the daily operations and management of the Investee Entities;
- (ii) our Group’s interests in the Investee Entities are accounted for using equity method accounting. The financial results of the Investee Entities are not consolidated into our Group’s consolidated financial statements; and
- (iii) the investment amounts in the Investee Entities accounted for approximately 2.6% of our Group’s total assets as of April 30, 2023. For the year ended December 31, 2022, we recorded a share of loss amounting to RMB12.5 million. The share of loss and fair value loss are either non-operating in nature or do not generate any cash outflows.

Reasons of our investments in the Investee Entities

Our minority investments in the Investee Entities are our long-term financial investments. We do not currently intend to increase our investments in the Investee Entities. Our Company

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agrees that, in the event that our Company proposes to acquire any business or equity interests in another company involving the Contractual Arrangements, we will only do so in compliance with the applicable rules and guidance letters of the Stock Exchange.

LEGALITY OF THE CONTRACTUAL ARRANGEMENTS

“Narrowly-tailored” requirements for the Contractual Arrangements

By entering into the Contractual Arrangements, the Relevant Business subject to foreign investment restriction and/or prohibition according to the Negative List is only carried out by our PRC Operating Entities while the other business activities of the Group which are not subject to foreign investment restriction and/or prohibition are carried out by ZX WFOE and its subsidiaries. Each of Shanghai Tanwan and Guangzhou Huanle had no substantial business as of the Latest Practicable Date, but will commence its online game operation business in the near future.

The Contractual Arrangements are used to enable our Group to conduct the Relevant Business that is subject to foreign investment restrictions and/or prohibitions in the PRC. Based on the above, we are of the view that the Contractual Arrangements are narrowly tailored to minimize the potential conflict with the relevant PRC laws and regulations as of the Latest Practicable Date.

GAPP Notice

On September 28, 2009, the GAPP, the National Copyright Administration and the Office of the National Working Group for Crackdown on Pornographic and Illegal Publications promulgated “The Notice Regarding the Consistent Implementation of the Regulation on Three Provisions” of the State Council and the Relevant Interpretations of the State Commission Office for Public Sector Reform and the Further Strengthening of the Administration of Pre-examination and Approval of Online Games and the Examination and Approval of Imported Online Games (《關於貫徹落實國務院<“三定”規定>和中央編辦有關解釋，進一步加強網絡游戲前置審批和進口網絡游戲審批管理的通知》) (the “GAPP Notice”). The GAPP Notice provides, among other things, that foreign investors are not permitted to invest or engage in online game operations in the PRC through sole proprietorship, equity joint ventures or cooperative joint ventures, and expressly prohibits foreign investors from gaining control over or participating in domestic online game operations indirectly by establishing other joint venture companies, establishing contractual agreements or providing technical support. Serious violation of the GAPP Notice will result in suspension or revocation of relevant licenses and registrations.

Notwithstanding the foregoing, the respective PRC Legal Advisers of the Company and the Joint Sponsors conducted interviews or verbal consultations with Hainan Provincial Press and Publication Bureau, Guangdong Press and Publication Bureau, Jiangxi Provincial Press and Publication Bureau and Jiangxi Shangrao Press and Publication Bureau (collectively, the “Relevant Authorities”), on December 7, 2021, May 11, 2022, August 17, 2022 and October 18, 2022, respectively, which provided confirmations that the Contractual Arrangements are not

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subject to any approvals from the Relevant Authorities. The Relevant Authorities did not express any objection to the Contractual Arrangements. Our PRC Legal Adviser is of the view that, (i) the Relevant Authorities are competent government authority for our Company's Relevant Business; and (ii) the relevant departments who gave the aforementioned confirmations in the interviews and/or verbal consultations have the authority to give such confirmations on behalf of the Relevant Authorities.

Legality of the agreements underlying the Contractual Arrangements

Our PRC Legal Adviser is of the opinion that:

- (i) each of the agreements under the Contractual Arrangements is legal, valid and binding on the parties thereto;
- (ii) no agreements under the Contractual Arrangements violate any provisions of the articles of association of ZX WFOE or Jiangxi Tanwan;
- (iii) the Contractual Arrangements do not require any approvals from the PRC governmental authorities, except that
 - (a) the pledges under the Equity Pledge Agreement are subject to registration requirement with the relevant local administration bureau for SAMR, registration of which will be completed prior to the [REDACTED];
 - (b) the Exclusive Option Agreement is subject to approval and/or registration with local administration bureau for SAMR, the MIIT or its branch, and/or other governmental authorities as applicable upon the exercise by ZX WFOE or its designee of its option rights under the Exclusive Option Agreement to acquire all or part of the equity interests in or assets of Jiangxi Tanwan;
- (iv) the Contractual Arrangements are not in violation of applicable PRC laws and regulations, except that the Contractual Arrangements provide that the arbitral body may award remedies over the shares and/or assets of Jiangxi Tanwan, injunctive relief and/or winding up of Jiangxi Tanwan, and that courts of competent jurisdictions are empowered to grant interim remedies in support of the arbitration pending the formation of an arbitral tribunal, while under PRC laws, an arbitral body has no power to grant injunctive relief and may not directly issue a provisional or final liquidation order for the purpose of protecting assets of or equity interests in Jiangxi Tanwan in case of disputes. In addition, interim remedies or enforcement orders granted by overseas courts such as Hong Kong and the Cayman Islands may not be recognizable or enforceable in China; and
- (v) the parties to each of the agreements under the Contractual Arrangements are entitled to execute the agreements and perform their respective obligations thereunder. None of the agreements under the Contractual Arrangements would fall within the contract void

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circumstances as stipulated in the Civil Code of People’s Republic of China (《中國人民共和國民法典》) (the “**Civil Code**”). Pursuant to Articles 144, 146, 153 and 154 of the Civil Code, a contract is void if the civil juristic act: (i) is performed by a person who has no capacity for performing civil juristic acts; (ii) is performed by a person and another person based on a false expression of intent; (iii) is in violation of the mandatory provisions of laws or administrative regulations, unless such mandatory provisions do not lead to invalidity of such a civil juristic act; (iv) offends the public order or good morals; or (v) is conducted through malicious collusion between a person who performs the act and a counterparty thereof and thus harms the lawful rights and interests of another person.

However, we have been advised by our PRC Legal Adviser that there are uncertainties regarding the interpretation and application of the current and future PRC laws and regulations over the validity of the Contractual Arrangements. Accordingly, there can be no assurance that the PRC regulatory authorities will not take a view that is contrary to or otherwise different from the above opinions of our PRC Legal Adviser in the future. See “Risk Factors — Risks Relating to Our Contractual Arrangements”.

Based on the above analysis and advice from our PRC Legal Adviser and confirmation from the relevant government authority, our Directors are of the view that the adoption of the Contractual Arrangements is unlikely to be deemed ineffective or invalid under the applicable PRC laws and regulations.

COMPLIANCE WITH THE CONTRACTUAL ARRANGEMENTS

Our Group has adopted the following measures to ensure the effective operation of our Group with the implementation and compliance of the Contractual Arrangements:

- (i) 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;
- (ii) our Board will review the overall performance of and compliance with the Contractual Arrangements at least once a year;
- (iii) our Company will disclose the overall performance and compliance with the Contractual Arrangements in its annual reports and interim reports to update our Shareholders and potential **[REDACTED]**;
- (iv) because the Contractual Arrangements will constitute continuing connected transactions of our Group upon **[REDACTED]**, our Company has applied to the Stock Exchange, and the Stock Exchange [has granted] a waiver, in relation to the Contractual Arrangements, details of which are set out in the section headed “Connected Transactions” in this document. Our Company will comply with the conditions prescribed by the Stock Exchange under the waiver given;

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- (v) our Company will engage external legal advisers or other professional advisers, if necessary, to assist the Board to review the implementation of the Contractual Arrangements and the legal compliance of Jiangxi Tanwan, ZX WFOE and the PRC Operating Entities to deal with specific issues or matters arising from the Contractual Arrangements;
- (vi) the company seals, financial seals, contract seals and crucial corporate certificates of the PRC Operating Entities are kept by our Group's finance department. The Registered Shareholders and employees of our Group, if they wish to use these seals, will have to obtain internal approval from the business, legal and/or finance department(s) (as the case may be) of our Group, as well as approval from relevant department heads and/or the chief executive officer of our Company. The business, legal and/or finance departments constitute our Group's central management system and the persons in charge of these departments as well as the department members responsible for the custody and handling of the seals and crucial corporate certificates are employees of ZX WFOE or our Company;
- (vii) our independent non-executive Directors will review the compliance of the Contractual Arrangements on an annual basis and their confirmation will be disclosed in our annual report; and
- (vii) to avoid potential conflicts of interest, our Board (including the independent non-executive Directors) will ensure that any designee or person or entity designated by ZX WFOE and Jiangxi Tanwan for the purpose of exercising any of the rights originally granted to ZX WFOE and/or such designee under the Contractual Arrangements shall be restricted to a legally-held subsidiary of our Company (and which will be under the management control of our Company) or an authorized director of our Company or a legally-held subsidiary (whom shall owe fiduciary duties to us) and shall exclude any of its associates. Our Board will also ensure that no rights shall be granted to any other third parties outside of our Group which do not owe any fiduciary duties to our Company.

As certain Registered Shareholders are corporate or partnership entities, to ensure that the PRC Operating Entities will comply with the Contractual Arrangements, we have decided to further introduce the following measures:

- (i) the three independent non-executive Directors will continue to play an independent role in our Board by reviewing the effective implementation of the procedures and controls referred to above and compliance of our Contractual Arrangements; and
- (ii) in the event of the occurrence of a conflict of interests (where ZX WFOE has the sole and absolute discretion to determine whether such conflict arises), Jiangxi Tanwan shall take appropriate measures upon the consent of ZX WFOE or its designee to eliminate such conflicts, failing which ZX WFOE may exercise, to the extent permitted under the PRC laws, the option under the Exclusive Option Agreements.

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The PRC Legal Advisors are of the view that effectiveness of the Contractual Arrangements in the Company’s case is the same with those cases where the equity interests of each operating companies are directly held by individual shareholders, considering the following factors:

- (1) all individual limited partners and general partners of each of the four partnership Registered Shareholders of Jiangxi Tanwan, namely Shangrao Hongbang, Shangrao Hechuang, Shangrao Qichuang and Shangrao Hezhong have executed resolutions authorizing each of the four partnership Registered Shareholders to enter into and perform obligations under the Contractual Arrangements. Also, Century Huatong (a listed company on Shenzhen Stock Exchange (Stock Code: 002602)), being the sole shareholder of Shanghai Tianyou, the only corporate Registered Shareholder of Jiangxi Tanwan, has also executed shareholder’s resolutions authorizing Shanghai Tianyou to enter into and perform the obligations under the Contractual Arrangements. These ensured that Registered Shareholders who are limited partnerships or limited liability companies are equally bound by the Contractual Arrangements as individual Registered Shareholders;
- (2) to ensure the effectiveness of the Contractual Arrangements extended to all the PRC Operating Entities, on the one hand, Jiangxi Tanwan, as the holding company and/or controlling shareholder which can exercise voting rights attached to more than 50% equity interests in each of its subsidiaries and is generally able to decide on the appointment of executive directors and/or a majority of directors on the board (where applicable) of each of such subsidiaries, and on the other hand, each of the Exclusive Business Cooperation Agreement, Exclusive Option Agreement, Equity Pledge Agreement, and Power of Attorney provides that, upon request by ZX WFOE, Jiangxi Tanwan is obliged to ensure its subsidiaries perform obligations in accordance with such agreements; and
- (3) the measures adopted by the Group as set out above also allow the Group to ensure the effectiveness of the Contractual Arrangements, notwithstanding certain Registered Shareholders of Jiangxi Tanwan are limited partnerships or limited liability company entities.

Notwithstanding the foregoing, each of the PRC Operating Entities other than Jiangxi Tanwan, being subsidiaries of Jiangxi Tanwan (the “**Remaining PRC Operating Entities**” and each a “**Remaining PRC Operating Entity**”) have executed a confirmation letter in favor of ZX WFOE to agree on the performance of obligations in accordance with Contractual Arrangements in their respective capacity, and when and where necessary, upon request by Jiangxi Tanwan, to enter into contractual arrangements with ZX WFOE to ensure the effectiveness of the Contractual Arrangements and that ZX WFOE is able to control and enjoy all economic benefits from Jiangxi Tanwan. In addition, the relevant board resolutions and shareholder resolutions of each of the Remaining Operating Entities have been adopted to approve the aforementioned confirmations.

ACCOUNTING ASPECTS OF THE CONTRACTUAL ARRANGEMENTS

According to HKFRS 10 — Consolidated Financial Statements, a subsidiary is an entity that is controlled by another entity (known as the parent). An investor controls an investee when

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it is exposed, or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Although our Company does not directly or indirectly own our PRC Operating Entities, the Contractual Arrangements as mentioned above enable our Company to exercise control over our PRC Operating Entities.

Under the Exclusive Business Cooperation Agreement entered into by and among ZX WFOE, the Registered Shareholders and Jiangxi Tanwan, it was agreed that, in consideration of the services provided by ZX WFOE, Jiangxi Tanwan will pay service fees to ZX WFOE service fees based on the workload and commercial value of services provided by ZX WFOE. ZX WFOE has the right to at any time adjust the service fee to be charged and its payment schedule according to the quantity and content of the services it provides to Jiangxi Tanwan. ZX WFOE may adjust the service fee at its sole discretion and allow Jiangxi Tanwan to retain sufficient working capital to carry out any growth plans. Jiangxi Tanwan shall deliver to ZX WFOE its management accounts and operating statistics upon ZX WFOE’s request accordingly, ZX WFOE has the ability, at its sole discretion, to extract substantially all of the economic benefit of Jiangxi Tanwan through the Exclusive Business Cooperation Agreement. In addition, under the Exclusive Option Agreement among the parties, ZX WFOE has absolute control over the distribution of any dividends, as the prior consent of ZX WFOE is required for dividend distribution, and ZX WFOE can request for immediate distribution of profits to be made. Further, under the Power of Attorney, ZX WFOE assumes all rights as shareholder and exercises control over Jiangxi Tanwan, including the right as set out in paragraph “— Our Contractual Arrangements — Power of Attorney” in this section.

As a result of the Contractual Arrangements, we have obtained control of Jiangxi Tanwan through ZX WFOE and, under our sole discretion, can receive substantially all of the economic interest returns generated by Jiangxi Tanwan and its subsidiaries. Accordingly, Jiangxi Tanwan’s results of operations, assets and liabilities, and cash flows are consolidated into our financial statements.

DEVELOPMENT IN THE PRC LEGISLATION ON FOREIGN INVESTMENT

Background of the FIL

On March 15, 2019, the 2nd meeting of the 13th Standing Committee of the National People’s Congress approved the Foreign Investment Law of the People’s Republic of China (《中華人民共和國外商投資法》) (the “**FIL**”) and it became effective on January 1, 2020. The FIL replaced the law on Sino-Foreign Equity Joint Ventures (《中外合資經營企業法》), the law on Sino-Foreign Contractual Joint Ventures (《中外合作經營企業法》) and the law on Foreign-Capital Enterprises (《外資企業法》) to become the legal foundation for foreign Investment in the PRC. The FIL stipulates three forms of foreign investment, but does not explicitly stipulate the contractual arrangements as a form of foreign investment.

The Potential Impact of the FIL on the Contractual Arrangements

The FIL specifically stipulates three specific forms of foreign investment, namely, (1) establishment of a foreign invested enterprise in the PRC by a foreign investor, either

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individually or collectively with any other investor; (2) obtaining shares, equity interests, assets, interests or any other similar rights or interests of an enterprise in the PRC by a foreign investor; and (3) investment in any new construction project in the PRC by a foreign investor, either individually or collectively with any other investor.

Conducting operations through contractual arrangements has been adopted by many PRC-based companies, including our Group. We use the Contractual Arrangements to establish control of our PRC Operating Entities, by ZX WFOE, through which we operate our business in the PRC. The FIL stipulates that foreign investment includes “foreign investors invest through any other methods under laws, administrative regulations or provisions prescribed by the State Council”. Therefore, there remains uncertainty regarding whether future laws, administrative regulations or provisions prescribed by the State Council may regard contractual arrangements as a form of foreign investment, whether our Contractual Arrangements will be deemed to be in violation of the foreign investment access requirements and how the above-mentioned Contractual Arrangements will be handled. Therefore, there is no guarantee that the Contractual Arrangements and the business of our PRC Operating Entities will not be materially and adversely affected in the future due to changes in PRC laws and regulations. See “Risk Factors — Risks Relating to Our Contractual Arrangements”. Our Company will disclose, as soon as possible, updates of changes to the FIL that will materially and adversely affect our Company as and when occur.